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# ***JPRS Report***

## **East Europe**

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# East Europe

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## INTRABLOC

### FRG Article on Hapsburg Visit to Hungary Reviewed

27000114 Bucharest ROMANIA LIBERA in Romanian  
26 Jul 88 p 5

[Unsigned article: "Leafing Through the Foreign Press—DIE WELT: 'After More Than 70 Years, Otto von Hapsburg Visits Hungary'"]

[Text] A few days ago the West German daily newspaper DIE WELT published an article headlined "After More Than 70 Years Otto von Hapsburg Visits Hungary." From its contents the readers learned about the recent visit to Hungary by West German citizen Otto von Hapsburg. The author of the article, Carl Gustav Strohm, closely following the hero of his report, before telling about what he does and thinks, introduces him to the readers, emphasizing the following:

Budapest and the Hungarian People's Republic are witnessing the greatest sensation, even if this is not "official": Deputy to the West European Parliament Otto von Hapsburg, "Archduke of Austria" (a title officially canceled in 1981), the son of the last emperor of Austria and king of Hungary, recently stepped, after more than seven decades, on the soil of the country whose king he would be if the events during the 1918-21 period had taken a different course.

Continuing, the author of the article stated:

In contrast with the regime of Adm Horthy, which prohibited Otto from coming to Hungary, the current regime did not raise any difficulties: Together with his wife, Archduchess Regina, and his daughter, Walburga, Otto von Hapsburg drove his own car into Hungary to take a five-day tour of that country. Everywhere he was warmly greeted by tourists—and especially by Hungarians, who regarded their "pretender to the throne" with a mixture of curiosity, congeniality, and respect. A young Hungarian told him: "To me, you represent Hungarian history."

What does the DIE WELT reporter write on Otto von Hapsburg's visit to Hungary? Special attention is paid to the episode of the "archduke's" visit to the National Museum: In front of the crown of Saint Stephen, moved, he looked at that crown that had been worn by the last monarch—his father, Emperor Karl—in 1916 when he was crowned king of Hungary. He had seen the crown, scepter, and sword for the last time 72 years ago, when he was 4 years old.

The newspaper goes on:

"Is it true?" asked a visitor to the museum when seeing Otto von Hapsburg. A museum worker made a deep bow and kissed the archduchess's hand. Autographs followed. Even the woman reporter for Hungarian television, who

was interviewing the visitors, asked for an autograph. And the guest signed, in keeping with Hungarian language tradition, "Hapsburg Otto."

From the article we find out that Otto von Hapsburg told his companions about the "Theology of the Crown of Stephen" and about its importance as a symbol of the Hungarian state and the fact that his father had never renounced the throne of Hungary because "a crowned king cannot abdicate." However, assessing that "the matter is no longer relevant" for him, Otto von Hapsburg made a point of stressing that "at present we must concern ourselves with the current situation of Hungary and not with issues that are not related to this situation." According to his statement, he was impressed especially with the "smooth rapport that Hungarians have with their own history," admitting that he had found such an awareness of history in few peoples.

The West German newspaper does not make a point of providing its reasons for deciding to report on this topic. However, it does not leave doubts as to the motives that impelled the obsolete personage to make a pilgrimage to the place that houses the Crown of Saint Stephen. Beyond the details scattered in the article with regard to the "curiosity, congeniality, and respect of residents" for the "representative of Hungarian history," the author of the article tells forthrightly what it is all about. "Hungarians," notes the DIE WELT reporter with unintended humor, "have found a spokesman in the person of Otto von Hapsburg when it is a matter of the Transylvanian question." And, indeed, in the statements and interviews that he gave to the press during his Hungarian visit, Otto von Hapsburg appeared very "concerned" with the fate of Transylvania and its inhabitants. We learn about this also from the interview that the former "archduke" gave to the newspaper MAGYAR NEMZET in Budapest, which waylaid him with questions in order to provide him the opportunity to make relevant statements. From the interview, which was generously published by the Hungarian newspaper, we learn that Otto von Hapsburg, descendant of the fiery Hapsburgs, who used to regard Europe's map in its entirety as a family inventory item, is now worried about the fate of Transylvania and willing "to fight" for its rights (!?!).

Also significant is the answer that Otto von Hapsburg made a point of giving to the MAGYAR NEMZET reporter to his question "Why did you first visit the town of Szombathely?" "Because," he nonchalantly answered, "the history textbook states that my father [that is, the emperor of Austria and king of Hungary, ROMANIA LIBERA editor's note] lived here during his attempt to achieve the restoration."

Restoration!?!

Justifiably, the question arises: What is concealed behind these "statements"? What is concealed behind the interest with which such a personage—to whom even Horthy denied entry—is followed so insistently? What is

the aim of those who try to bring him and all his people back to reality, and to make him report his emotions evoked by the "crown, scepter, and sword" from which he had parted, under the implacable blows of the people's struggles, 70 years ago?

The strange ambitions of Otto von Hapsburg to seek, at any cost, a place in history's memory other than the one that he deserves can only evoke smiles and arouse pity. However, it is incomprehensible and regrettable that there still are people who, fascinated by the perorations of a phantom, let themselves be lured in the hope of recruitment of "advocates"—as DIE WELT labels them—for causes that were lost long ago, by the idea of "restoration" of a past that has been condemned by history, once and for all.

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## GERMAN DEMOCRATIC REPUBLIC

### Theoretical Foundation of SED Socioeconomic Policy Examined

23000014 East Berlin DEUTSCHE ZEITSCHRIFT  
FUER PHILOSOPHIE in German Vol 36 No 7, Jul 88  
(signed to press 4 Apr 88) pp 577-587

[Article by Prof Dr Alfred Kosing, research department head at the Institute for Marxist-Leninist Philosophy at the SED CC's Academy for Social Sciences, president of the Association of Philosophical Institutions of the GDR: "The Dialectics of the Continued Shaping of Advanced Socialist Society"]

[Text] The 11th SED Party Congress noted that the GDR has made significant progress on the road to further shaping the advanced socialist society. The social concept adopted in the SED program, and the social strategy based upon it, have proven themselves. The socialist society of the GDR has entered a new development phase which is linked to qualitatively higher tasks in all areas of societal life. Historic experiences in the shaping of advanced socialist society have fully confirmed the important thesis of the Party program that this represents a "historic process of far-reaching political, economic, social and cultural-intellectual changes." Simultaneously, they helped us to a much deeper understanding of this fundamental thesis the importance of which will grow even more for the future development and perfecting of socialist society.

In the light of present experience, it is particularly impressive to see the correctness of the theoretical prognosis by Friedrich Engels who wrote in a letter as early as 1890 that socialist society "is not a thing completed once and for all, but must be understood like all other social conditions as undergoing constant change and transformation."<sup>1</sup> Although these changes and transformations are essentially directed deliberately and according to plan, it does not alter the fact that new problems

and tasks constantly arise for which there are no ready-made solutions. These can be developed theoretically only when historical experience and the new social reality provide sufficient material for an empirical base.

The road traveled since the Eighth SED Party Congress in shaping the advanced socialist society in the GDR, the extensive experience of the GDR as well as that of other socialist countries, the success achieved, but also the problems and difficulties offer a rich material base for theoretical analyses of the functional mechanisms, development tendencies, the contradictions and driving forces of socialist society. It enables us to research more precisely and deeply their regularities and deduce from them extended considerations and proposals which create the theoretical preliminaries for further developing the concept of advanced socialist society and social strategy. With this in mind, the 11th SED Party Congress challenged the social sciences to "carry out research even more extensively and thoroughly into development tendencies, regularities and driving forces of socialism as a uniform social organism."<sup>2</sup> The party congress placed particular importance on those works "which open up the requirements and driving forces of economic growth through further acceleration of scientific-technical progress and intensification of the economy. Much attention should be given to the analysis, justification and propagandizing of the values and advantages of socialism."<sup>3</sup> From the philosophical aspect, this task set by the 11th SED Party Congress means primarily that the dialectics of socialism must be researched and represented more thoroughly and extensively, i.e., work in this field must be continued with greater intensity and higher demands.

Already since the 9th SED Party Congress, a collective of the Institute for Marxist-Leninist Philosophy at the SED CC's Academy for Social Sciences has been occupied with this task. As a result of this work, the book "Dialectics of Socialism" was written and published.<sup>4</sup> This was the first attempt in the GDR of a philosophical analysis of socialist society and its development. It was a matter of applying materialistic dialectics as a method and way of thinking to the study of the social reality of socialism and to reveal, through dialectic thinking, the objective dialectic correlations, interpositions, regularities, contradictions and driving forces in the actual development process of socialist society. The new quality of social dialectics in socialism, the new correlation between objective and subjective conditions, the shaping of socialist society into an organic system, the sources and driving forces of its higher development as well as the correlation between national and international [affairs] were studied, thus shedding greater light on important aspects of the objective dialectics of social development in socialism.

Although the book "Dialectics of Socialism" has some essential gaps and a few shortcomings, its intent corresponds to a social need.<sup>5</sup> With the further shaping in the GDR, the analogous development processes in other



socialist countries as well as the ensuing transformations, the problem of socialist dialectics in theoretical and propaganda work will grow even more in importance and interest. For this reason the authors' collective considers it only right to continue work on this book and to carry out a thorough revision, expansion and deepening. A new version is contained as a task set in the central research plan of Marxist-Leninist social sciences for 1986-90.<sup>6</sup>

In this article, some of the most important theoretical aspects will be presented on which the revised text is based. The guideline for studying and presenting the dialectics of socialism will be the thought that the further shaping of advanced socialist society is a determinate process of far-reaching changes that must be directed deliberately. Accordingly, one of the most important intents will be to study and develop the dialectic correlation between things objective and subjective, objective regularity and deliberate action, regularity, contradictions and driving forces in the entire social process and its planned management in all spheres and areas of socialist society. In this manner it is endeavored to create a deeper theoretical understanding of socialist society and its development. That, however, requires a more thorough philosophical penetration of the entire material. Throughout, attention will also be paid to the dialectics of internal and external development conditions of socialist society as well as the requirements and effects of the competition of opposite social systems in order to register the entire complicated nature of the development of socialism in connection with the dialectics of the epoch and the world situation.

Revision of the book not only results in the individual chapters being made more precise in accordance with these requirements. At the same time, new problems are also included which had not been addressed in the present edition. In various discussions of the present version of the book it has been rightfully criticized that important problems are missing, such as the dialectics of the development of social structure, the dialectic relationship between individual and society, and the dialectics of intellectual life. In the new version we want to close these gaps in order to present a more comprehensive picture of the dialectics of socialist society. In general, we shall endeavor to carefully study and take into consideration all critical objections, points and proposals that had been made in the course of time.

Our further work is based on the assessment by the 11th SED Party Congress that both the concept of advanced socialist society, as well as the SED's social strategy based thereon, have proven themselves both in theory and practice. This provides us with a solid theoretical foundation in order to continue the shaping and perfecting of advanced socialist society under the concrete historical conditions of the GDR and to master the qualitatively higher tasks connected with it. That does not mean, however, that this concept of society is finalized and concluded and that it is only a question of

comprehensive implementation of an already finished ideal model of a new society. Whoever sees the matter so simply does not realize that we are dealing with a complicated process of experience and insight. Every level of knowledge must again and again be reexamined in the light of the experiences and results of practical policy and corrected, if necessary, if it is not adequate, or no longer so. The social concept and social strategy must be creatively enriched and developed further in order to solve newly arising problems and to find new answers to old questions. For it often appears that solutions which worked in the past are no longer sufficient under new conditions. With this in mind, Erich Honecker said that it is important "that every country react flexibly and in timely fashion to new challenges in accordance with concrete national and international conditions. As for the GDR, the development of our strategic concept for the further shaping of advanced socialist society has at no time been considered concluded."<sup>7</sup>

The concept of advanced socialist society states above all that socialism as a first development stage of the formation of communist society is not a short way station on the road to communism, but a historically longlasting society which develops on its own foundations, evolves its own autonomous socioeconomic quality, and thereby brings forth its advantages and driving forces. Only on this long, long road—which must be traversed in tough competition with the capitalist social system—can socialism attain the required degree of economic maturity and higher work productivity which are necessary conditions for later transition to communism. Advanced socialist society is the historically long period of the first development stage of the formation of communist society in which these tasks must be solved.

From this follows that the concept "advanced socialist society" does not reflect a determined condition of socialist society, and definitely not a more or less ideal condition, but rather a qualitatively determined development period of the first phase of the formation of communist society, which is above all characterized by the level of tasks to be solved. That point is ignored at times, which then creates doubts whether it is even justified to speak of an advanced socialist society, since some areas of that society are not at all sufficiently developed. Instead, it is proposed that it would be better to speak of the "developing socialist society." But that is a misunderstanding. It is true, of course, that socialism is a developing society; it has always been that. And it will remain that as long as it exists. But it is not a matter of repeating that self-evident fact but rather to emphasize a qualitatively determined period in the development. And it actually concerns the decisive period in which socialist society must attain that quality which prepares the transition to communist society. Earlier, when historical experiences did not offer sufficient material to determine more precisely the development road of socialist society, we did not know that such a development period would even occur, but assumed instead that

socialist society in a relatively short time after its establishment would pass on to the higher phase of communism. The concept "advanced socialist society" was chosen, among other things, in order to clearly distinguish this development phase of socialism from the preceding one.<sup>8</sup>

The observation of the 11th SED Party Congress that the GDR has entered a new phase in the shaping of advanced socialist society reflects primarily the fact that we have reached the development level in which the constant revolutionizing of productive forces through the development and introduction of key technologies and mastery of the scientific-technical revolution overall has become a necessary condition for the higher development of socialism. This transition to a qualitatively higher development level is objectively necessary not only for reasons of competition with the capitalist social system, but primarily because of the internal development needs and demands of socialism itself. This is not only the GDR's problem, but that of the entire socialist community. This requirement manifests itself in the most varied forms: many difficulties, more serious contradictions, the slowing of the development tempo. Manifestations of stagnation and crisislike processes in various socialist countries are primarily due to the fact that the possibilities of the so far dominating development road have been largely exhausted and, therefore, objective development limits have been reached. In the last analysis, that is the decisive cause of the far-reaching changes, reforms and transformations that have begun in all socialist countries, aiming at giving greater dynamism and effectiveness to socialist society and better developing the driving forces of economic growth.<sup>9</sup> The socialist society of the GDR is not at all outside the great processes of change occurring in all socialist countries. On the contrary: For various reasons, it is particularly sensitive to necessary processes of change. This results above all from its exposed location at the dividing line of the opposite social systems.

Thus the SED oriented itself in timely fashion toward necessary far-reaching changes in order to ensure the further development process of socialist society. Beginning with the Eighth Party Congress, transition of the economy to intensively expanded reproduction was aimed at and essentially implemented over a longish period of time. At the same time, extensive transformations in the system of management, planning and stimulation of economic activity were initiated, and forms of economic linkage between science and production were developed. Thus important steps of transition to the objectively necessary higher development level were taken. But they only constitute the beginning of a long and accelerating revolutionary upheaval of production forces and ensuing far-reaching changes in all areas of society. This results not only from the fact that the socialist production method assumes a qualitatively new character as the determining basis of social development, but also from the more strongly emerging systematic character of socialist society and the more intensive

reciprocal effect of all its sectors. It would, therefore, be a fatal error to assume that the socialist society of the GDR has already undertaken all necessary changes and that only the other socialist countries still have to master them.

In order to make intensification permanent and to deepen it further, to attain the necessary dynamism of the economy and all of society, to ensure the required speed of innovations and further promote and utilize the existing driving forces of scientific-technical, economic and social progress, the entire reproduction process and, in addition, the process of the entire societal life must be raised to the qualitative level attained in the economy through comprehensive intensification. Analogous and adequate transformations in the other sectors of socialist society—political, social, cultural, educational and intellectual—are absolutely necessary. The material and spiritual driving forces of socialist society can be developed lastingly and reproduced at a higher level only if the necessary conditions in all sectors of societal life are created. Otherwise, there is the real danger of losing momentum, of stagnation, of aggravating contradictions. It is therefore objectively necessary to continue purposefully the process of far-reaching changes. Without a doubt, the further perfecting of the economic mechanism is of decisive significance. It must be shaped in such a way that all phases of the reproduction process are tied together through economic arrangements and that the necessary feedbacks function effectively. Evidently, an extraordinarily important link is the economic regulation of relations between production and trade. That is decisive not only with regard to a demand-oriented supply of goods, but also a definite improvement in the quality of goods. It is a matter of drawing all consequences from the knowledge that one is dealing with socialist goods production. The unity of all phases of the reproduction process can be achieved only through deliberate utilization of the economic laws of goods production and goods circulation. This means that much greater importance must be given to the analysis of needs and demands—that is, the internal market—for the planning of consumer goods production. Otherwise, the efficiency principle cannot be implemented comprehensively, and the unity of economic and social policy cannot be organized effectively.

In the area of political relations and the political system it is necessary, in accordance with the orientation of the Party program, to develop in theory and implement in practice the forms, ways and substance of expanding and deepening socialist democracy which correspond to our conditions and traditions. Two directions appear particularly important in this: the first concerns the further growth of democratic centralism. In its contradictory unity of opposite sides (national centralism as an expression of total social interests, and regional such as local activity, initiative and competence as an expression of regional and local interests), its considerable driving force potential must be better utilized. Still existing administrative practices must be overcome by a joint

search for appropriate forms of agreement between state, regional and local interests. Inseparably linked to this is another direction of the further development of socialist democracy: To create and strengthen the unity of societal, collective, and individual interests—the most important source of driving forces—many varied forms and methods are needed in which legitimate interests, which arise from the living conditions of workers and aim at further strengthening socialist principles, can be publicly expressed at the various levels of society. That is a prerequisite for using them comprehensively as driving forces. A condition for that is a high level of information on all essential problems of our societal development which touch the living conditions and interests of workers.

As Erich Honecker stated, in the GDR, also, there are “a number of questions which our Party always analyses and examines thoroughly, and time and again we shall have to make decisions, make changes, in order to correspond to the demands placed by people on socialism.”<sup>10</sup> The SED has already carried out far-reaching transformations since the Eighth Party Congress and is purposefully continuing them in the new development stage. “It is self-evident that we study and use the experiences of other socialist countries in their socialist development. But that in no way means to simply copy them. That would be harmful.”<sup>11</sup> Such an approach would not do justice to the complicated task set and could not lead to success, since there is no universal scheme for applying the general laws and principles of socialism. Rather, every Marxist-Leninist party must develop that variant of the socialist societal concept which is appropriate for the conditions, development phase and actual possibilities of one's own country.

Based on these positions, the book “Dialectics of Socialism” to a large extent was newly conceived. The revised edition must draw all the consequences from the advanced socialist society's entry into a qualitatively new phase, and that means that essential changes must be made in the theoretical substance contained. It is a matter of dealing more thoroughly with the historical experiences of socialism and deriving greater benefit from the insights of the 11th SED Party Congress, the 27th Party Congress of the CPSU, and the party congresses of the Marxist-Leninist parties of other socialist countries. Comparing the development processes and experiences of different countries makes it possible to ascertain more clearly what is common and what is different in the concept of society, social strategy and practical policy of various countries, thus researching more thoroughly the dialectics of what is general, specific, and individual, as well as matters national and international in the development of socialism. That is of great theoretical and practical significance in order to better understand and justify the unity of socialism in its plurality.

A problem requiring far more differentiated study than usual up to now is the relation between socialist society

and the formation of communist society. In this context one speaks mostly of the dialectics of socialism and communism without paying enough attention to the fact that, in precise terms, it is a matter of the position and role of socialism as a society within the formation of communist society. Socialism exists in reality as the lower development phase of the formation of communist society, while communism, on the other hand, does not yet exist in reality as the higher stage of this societal formation, but rather as a regular development tendency, a historical possibility, and a theoretical concept of future society. This essential difference must be strictly observed so that no speculative ideas arise about a dialectic correlation between an actually existing society and one that does not yet exist, which contribute little to understanding the development of the formation of communist society. It is far more important to examine more thoroughly in what way socialism as a society with autonomous quality constitutes the actual, concrete historical form of existence of the formation of communist society, and how the relationship between general-communist foundations, elements and characteristics and socialist society is patterned.

Based on our present knowledge, we are of the opinion that the general-communist foundations and characteristics constitute a general trait of the entire social formation; that they cannot exist as something that is general per se, detached from socialism and independent of its qualitative determination and its principles, but only in and through that which is specific and individual. That means that the general-communist foundations and characteristics of the formation of communist society exist only in the social content, traits and principles of socialism as the concrete historical form of existence and embodiment of the formation of communist society in its first development phase. To formulate it differently: All general-communist foundations, characteristics and elements during the first development phase of the formation of communist society are subordinate to the actual processes and conditions of socialism; they exist in socialist content and forms. That, for example, holds true for social property as well as the new attitude toward labor, education and training, morale, etc.

The further shaping and perfecting of advanced socialist society is a uniform process of comprehensive growth of the advantages and driving forces of socialist society, not a “dual process” in which, on the one hand, socialism as a society is further perfected and, on the other hand, general-communist foundations, elements and characteristics are further developed and strengthened. Any separation, detachment, or independence of general-communist foundations, elements and characteristics of social life from socialist society and its specific socioeconomic quality leads to the point where socialism and what is socialist become devalued and underestimated. This can lead to an unrealistic assessment of the development level of socialist society and also to illusory task sets.



It no longer suffices at present to characterize social ownership of production means as the general-communist foundation of the entire new societal formation. Social ownership is subject to a qualitative development and is not at all identical in the two development phases of the formation of communist society. In socialism, social ownership exists only and exclusively as socialist property, and as such it has its own specific vis-a-vis communist property, which is primarily due to the development level of productive forces. Socialist societal property exists in two basic forms, as people's ownership or state property, and as cooperative or collective property. Both ownership forms with their different content and forms are objectively necessary in socialism. They result logically from the development level of the productive forces, from the historically grown social division of labor and the connected structure of interests and other objective as well as subjective conditions of socialist society. Cooperative property has enormous advantages and economic and social potentials for the entire first development phase of the new societal formation in certain sectors of the economy and society which socialism cannot relinquish. The abstract unhistorical view of state property as general-communist can lead to a totally unjustified underestimation and devaluation of cooperative property with negative practical consequences.

I have discussed the problem of the relation between general-communist foundations and characteristics and socialist society and its further shaping and perfecting at some length in order to make clear the direction in which this entire set of problems is to be analyzed. That is also an important theoretical precondition in order to obtain a closer definition of the autonomous specific quality of socialist society and its principles.

On the basis of a realistic and justified understanding of the relation between socialist society and the formation of communist society, our publication will study the objective social dialectics of socialism in the individual sectors and sides of socialism as well as the correlation of these sectors within the organic, overall societal system. Of profound importance is a deeper research into the dialectics of the socialist production method, particularly the dialectic correlation between productive forces and production conditions. The revolutionizing of modern productive forces through the scientific-technical revolution and the development of key technologies creates many new questions, and many an old question gains new aspects. The fundamental question of what are the content and the ways of organically linking the achievements of the scientific-technical revolution with the socialist economy and society needs thorough study. Primarily it is not a matter of importing completed achievements of the scientific-technical revolution and utilizing them under socialist production conditions (although this also plays a certain role). Decisive for this process is a different way, namely, the development of productive forces and of the technology of socialism on the basis of, and through application of the level of knowledge of the scientific-technical revolution. On the

one hand, this requires constant modernization of one's own material base to make it broadly receptive to key technologies and, on the other hand, it demands a continuous higher development of socialist production conditions so that they work as development forms of modern productive forces and constantly provide them with greater development possibilities in the entire economy. A more precise understanding of socialist production conditions is also necessary in order to examine the dialectics of productive forces and production conditions more thoroughly. One must overcome the tendency to see them exclusively or primarily as ownership conditions and to interpret the breadth and variety of economic relations of socialist workers in all phases of the reproduction process as a manifestation of production conditions, as well as the simplistic idea that they are merely conditions of comradesly help and support. Not taking into account that this somewhat moralistic assessment says little about the socioeconomic nature of socialist production conditions, it also completely disregards some of its important characteristics, as for example, that socialist production conditions by their nature are conditions of social security. For that reason they can be effective as development forms of modern productive forces and get workers themselves interested in scientific-technical progress. This makes it clear that socialist production conditions by their nature are conditions promoting personality development which enable and simultaneously demand the development of the most important productive force, that of working man. A more detailed study of such qualitative traits of socialist production conditions with the aim of utilizing them consciously and more effectively gains enormous practical significance, especially in context with the continuing revolutionizing of productive forces through the introduction of key technologies. On that basis, special attention should be paid to the question in what way mastery of the scientific-technical revolution in socialism shows specific traits which distinguish it from the analogous processes in capitalist society.

The dialectics of the socialist production method are essentially influenced by the fact that they concern socialist goods production and circulation. From this results not only the nature of the goods produced, but above all the part played by goods-money relations in all phases of the reproduction process and the effect of the economic laws of the commodity economy. It also gives rise to specific contradictions of the socialist production method which so far neither by content nor forms of movement and solution have been sufficiently clarified in theory and mastered in practice. One of these contradictions is that between planning and market, being constitutive for the socialist method of production, which for a long time had not been recognized sufficiently or accepted by us. Socialist production is not possible without central planning; that is one of its greatest advantages. Only planning oriented to the overall interests of society makes it possible to implement the unity of economic and social policy, to carry out an

active structural policy, to effectively manage scientific-technical progress, etc. But without observing and deliberately utilizing market mechanisms it is also not possible to satisfy reliably, with high quality and the proper range of goods the rapidly changing demands of people for consumer goods of all types. Among other things, supply gaps in some lines of goods, and the hesitant and insufficient development of new consumer goods show that the market's objective economic mechanisms are being underestimated and are not linked to the necessary extent with the advantage of planning into a contradictory unity.

Closely tied to the socialist method of production and its dialectics is the development of the social structure of socialist society. Marxist-Leninist sociology has thoroughly researched the qualitative and quantitative changes of the social structure of our society.<sup>12</sup> This material must now be analyzed philosophically in order to record the dialectics of the development of social structure in its essential correlations, development tendencies and contradictions. It concerns not only the rapprochement of classes and social strata and the further development of the leading role of the workers' class, but also the processes of differentiation within the classes and strata. They in particular are gaining in importance in the present development phase of socialist society.

The development of the specific socioeconomic quality of advanced socialist society also provides the basis for overcoming simplistic ideas of the actually possible extent of social equality and social homogeneity in socialism and clarifying the problem of social justice more thoroughly and realistically. Socialist society, by eliminating private ownership of production means and transferring it to social ownership, has cut the ground out from under class antagonisms and established the foundation not only for a far-reaching transformation of the entire social structure, but also for a long-term process of social rapprochement between the classes and social strata, which simultaneously includes processes of new differentiations. On the soil of socialist production conditions a certain measure of social equality is developing and strengthening, which finds its objective conditions in the degree of economic maturity of socialist society. Social equality consists in the equal relation to production means, since all members of society are their collective owners and have the same social security which guarantees every member of society a job commensurate with his qualification and social requirements; it also consists in all members of society being evaluated by the same measuring stick of performance and that their share of social wealth is determined by this performance; that all members of society have equal educational opportunities and equal rights as citizens. This is the concrete-historically possible extent of social equality in advanced socialist society.

But this fundamental social equality is necessarily linked in socialism with its opposite, with elements of social inequality. They result inevitably from the degree of

economic maturity of socialist society as the first or lower development phase of the formation of communist society, in which it is not yet possible to overcome the traditional social division of labor with its socially differentiating effect. At the development level of productive forces attained (and attainable) in socialist society, there still exist considerable differences in working conditions, work content, the necessary qualification level, relative physical and mental demands, etc. Since the performance principle—as the expression of social equality and justice—forms the basis of distribution, inevitably a certain inequality in income level and the material and cultural standard of living arises. This social inequality has consequences of many kinds, for example, on the educational and qualification level and thus on the performance capability of man, so that a tendency toward reproduction of the elements of this social inequality is created.

Historical experiences of socialist society in various countries show that attempts to bring about social equality faster through forced social homogenization or even systematic egalitarianism do not lead to the solution of the problem, but rather to further negative consequences, particularly the undermining of driving forces linked to the socialist performance principle. Legal changes of ownership conditions—for example, by transferring cooperative property into state property—also do not lead to a real change in the social division of labor with its inherent social inequality and differentiation, but rather to changes in statistical categories. The dialectics of social equality and social inequality in socialism have objective foundations, and therefore cannot be eliminated by either artificially enforced actions or definitional sleight of hand. Rather, it is a matter of giving forms of movement to this objective contradiction—which is no more a flaw of socialism than are other objective contradictions—which will push towards its dissolution. But this can be done only through the full unfolding of the socioeconomic quality of socialism on the basis of a powerful development of productive forces. Yet here in particular, those driving forces are also needed which grow out of the socialist performance principle and—linked to it—out of the dialectics of social equality and inequality.

The many manifestations and effects of this aspect of the dialectics of socialism have been studied empirically and to a great extent by sociology. In our further work on the central planning project it will be a matter of analyzing this empirical material philosophically so that we can deepen our theoretical opinions of social equality and social justice in socialism and justify it more extensively in accordance with actual social development. It must be emphasized in conclusion that the planned publication can be accomplished only in close cooperation with the appropriate Marxist-Leninist social sciences. The knowledge and materials of political economics, sociology, scientific communism, comparative research of socialism, cultural and liberal arts sciences are indispensable

in order to be able to write a philosophical work on the dialectics of socialism which lives up to the demands and standards of the 11th SED Party Congress.

#### Footnotes

1. Engels to Otto von Boenigk, 21 August 1890. In: MEW, vol 37, p 447.

2. Report by the Central Committee of the SED to the 11th SED Party Congress. Reporter: E. Honecker, Berlin 1986, p 58.

3. Ibid.

4. Members of the authors' collective of this work published in 1981 by the Dietz Publishing Company are: A. Kosing, E. Hahn, M. Hagen, H. Schliwa, and I. Schulze.

5. Five editions have been published since 1981; the sixth is being printed. In the epilogue to the fourth edition of "Dialectics of Socialism" I dealt with some topical development problems of socialist society and some discussion problems (see pp 368-394).

6. The following authors' collective is at work on the revision: A. Kosing, E. Hahn, H. Kulow, H. Schliwa, H. Weissflug. We expect to conclude the work in 1989.

7. E. Honecker: Mit dem Volk und fuer das Volk realisieren wir die Generallinie unserer Partei zum Wohle der Menschen [With the People and for the People We Implement Our Party's General Line for the Welfare of Man]. Berlin 1988, p 16.

8. See O. Reinhold: Erfolgreiche Gesellschaftsstrategie der SED [Successful Social Strategy of the SED]. In: Sozialismus in der DDR [Socialism in the GDR], Berlin 1988, p 7 ff.; E. Hahn/A. Kosing: Aktuelle Probleme der Dialektik des Sozialismus [Topical Problems of the Dialectics of Socialism]. In: DEUTSCHE ZEITSCHRIFT FUER PHILOSOPHIE, No 4/1984.

9. Compare Ch. Haupt/G. Haupt/K. Hoevelmans: Zu einigen Aspekten der gegenwaertigen Entwicklung des sozialistischen Weltsystems [On some Aspects of the Present Development of the Socialist World System] In the present issue.

10. E. Honecker: Mit dem Volk..., p 16 f.

11. Ibid., p 16.

12. Also compare: Sozialstruktur der DDR [Social Structure of the GDR]. Chief of the authors' collective: R. Weidig. Berlin 1988

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## POLAND

### Law Grants People's Councils, Self-Governing Units Wider Privileges

26000632 Warsaw *DZIENNIK USTAW* in Polish  
No 19, 17 Jun 88, Item 130, pp 285-292

[Law No 130 of the Council of State dated 16 Jun 1988 on changes in the law governing people's councils and local self-government]

[Text]

**Article 1.** The Decree of 20 July 1983 on the System of People's Councils and Local Self-Government (*DZIENNIK USTAW*, No 41, Item 185, and No 62 Item 286; No 21, Item 100, and No 31, Item 173, 1984; No 14, Item 60, 1985; No 47, Item 227, 1986; No 14, Item 83, and No 33, Item 181, 1987; and No 7, Item 54, 1988) is amended as follows:

1) The following Paragraph 5 is added to Article 6:

"5. In the event that a people's council proposes cooperation, the organizations referred to in Paragraph 1 are dutybound to take a position on these proposals within one month and to notify the council of that position";

2) Article 13 is rescinded;

3) Paragraph 1 of Article 16 is reworded as follows:

"1. The formation, mergers, and elimination of basic-level local administrative areas and their renaming as well as the determination of the seats of their people's councils occurs through a resolution of the Council of State, passed in cooperation with the Council of Ministers upon consulting the concerned voivodship people's council or following a recommendation by the latter";

4) In Article 20 the term "and municipal" is inserted each time before "Article 15, Paragraph 3";

5) In Article 23:

a) In Paragraph 2 the expressions "insofar as possible" are deleted;

b) Paragraph 3 is reworded as follows:

"3. Performing a special territorial division as well as changes in that division requires:

"1) approval of the voivodship people's council, in the event that the division is on the area of the voivodship;

"2) recommendation of the concerned voivodship people's councils in the event that the division affects the area of more than one voivodship";

6) In Article 24, Paragraph 2, the expression "and their bodies" is inserted each time after the expression "To people's councils", and the expression "within the scope of competences of the authorities and state administration" is deleted each time following the expression "as well as other matters";

7) Articles 26 and 27 are deleted;

8) In Article 28, Paragraphs 1 and 2 are reworded as follows:

"1. In cities with a population of more than 300,000, which are divided into boroughs, the municipal people's councils are competent on matters relating to:

"1) decisions on taxes, fees, and benefits;

"2) land use management, within the scope specified by special regulations;

"3) applicability of local laws to matters other than those specified in Points 1) and 2);

"4) enterprises and other entities of citywide importance.

"2. The competences of borough and municipal people's councils on matters other than those specified in Paragraph 1 that exist among the competences of basic-level people's councils are determined by the voivodship people's councils";

9) Article 29 is reworded as follows:

"Article 29. 1. In the voivodships of Warsaw, Krakow, and Lodz the borough people's councils are competent on matters belonging within the competences of basic-level people's councils, with the exception of matters referred to in Article 28, Paragraph 1.

"2. Matters referred to in Article 28, Paragraph 1, are within the competences of the People's Council of the Capital City of Warsaw, the People's Council of the City of Krakow, and the People's Council of the City of Lodz";

10) Articles 30 and 31 are rescinded;

11) Article 32 is reworded as follows:

"Article 32. 1. The competences of voivodship people's councils extend to matters:

"1) specified in decrees, especially as regards national defense, environmental protection, fire safety, and the counteraction and prevention of natural disasters;

"2) included in their competences by decrees or resolutions of the Sejm concerning socioeconomic and territorial development and the satisfaction of needs of the populace;

"3) of voivodship importance and scope, relating to the operation of:

"a) entities supplying producer goods to agriculture and handling the production and repair of agricultural machinery and equipment, as well as veterinary services;

"b) agricultural and fishery enterprises as well as agricultural service providers, especially providers of electrification and land reclamation services;

"c) specialized communal enterprises as well as enterprises for general, communal, and agricultural construction, for road construction and maintenance, for the production of building materials and transportations, entities providing producer goods to construction, and design bureaus;

"d) local manufacturing enterprises and crafts, trade, service, and gastronomic enterprises;

"e) supraelementary educational institutions as well as boarding homes and other special-care institutions;

"f) hospitals, social welfare institutions, and sanitation vehicle units;

"g) institutions and centers for the dissemination of culture, art, and cultural services as well as for the protection and conservation of historical relics;

"h) sports and recreational facilities and tourist enterprises and institutions.

"2. Matters relating to the maintenance of the facilities belonging to the centers and institutions referred to in Paragraph 1, Point 3,e)-h), belong within the competences of basic-level people's councils. This does not apply to facilities named on a list determined by the Council of Ministers in cooperation with the Council of State";

12) Article 33 is rescinded;

13) In Article 34, Paragraph 1, the period is replaced with a comma and the following expression is added: "insofar as these matters are not reserved by law for the competences of voivodship people's councils";

14) Article 35 is reworded as follows:

"Article 35. People's councils assure the maintenance of law and public order in the areas under their jurisdiction and, in this respect, exercise control over the work of Citizens' Militia and the activities of the Volunteer Reserve of Citizens' Militia";



15) The heading of Chapter 4 is reworded as follows:

"Planning and Financial Management";

16) In Article 38, Paragraph 1, the expression "the decree on socioeconomic planning and other decrees" is each time replaced with the expression "the present decree, the decree on socioeconomic planning, the decree on land use management, the Budget Law, and other decrees";

17) In Article 39, Paragraph 3, the second sentence is deleted;

18) In Article 40, Paragraph 1 the expression "referred to in Article 39" is each time replaced with the expression "multiannual";

19) In article 41, Paragraph 2 is deleted;

20) In Article 47:

a) the expression "contingency fund" as employed in various cases in Paragraphs 1, 2, 3, and 5, is each time replaced with the expression "local contingency fund";

b) Paragraph 3 is to be complemented with the following Paragraph 3a:

"3a. The people's council may use bank credit to accomplish its tasks. The principles for the granting and repayment of such credit are defined by separate regulations";

21) In Article 50:

a) in Paragraph 3, Point 2), the expressions "referred to in Article 62" are deleted;

b) in Article 3 the following Point 3) is added:

"3) a share of from 5 to 10 percent in income tax revenues from state enterprises whose parent agencies are supreme or central agencies at the national level, as determined for 5-year period with apportionment over discrete years";

c) in Paragraph 5 the expression "particularly" is replaced with "economically";

22) Article 52 is to be complemented with the following Article 52a:

"Article 52a. The apportionments and subsidies referred ton in Article 50,m Paragraphs 3 and 5, and Article 52, are determined on the basis of objectivized criteria defined pursuant to the 'Budget Law' decree";

23) the expression "specified fund," as used in various cases in Articles 53, 55, and 56, is replaced in each case with the expression "local specified fund";

24) Chapter 5 is reworded as follows:

"Chapter 5. Local Economy

"Article 57. To assure broad socioeconomic and cultural growth and meet the needs of the populace by meshing with national interests the local needs defined in local plans, the people's councils, in their capacity as:

"1) local agencies of state administration, influence the activities of all entities operating within the areas under their jurisdiction, in the manner specified in the present decree and other decrees;

"2) local self-governments, engage in autonomous economic activities, dispose of communal property allocated to them by law, and constitute autonomous economic entities participating in civil-law transactions on the same principles as legal entities.

"Article 58. In exercising the function referred to in Article 57, Point 1), people's councils may:

"1) impose on economic entities, and especially on entities of the socialized sector, the duty of drafting 5-year and longterm development plans;

"2) demand the drafting and submission of programs concerning:

"a) environmental protection;

"b) utilization of secondary and local raw materials;

"c) conservation of water, energy, and raw and other materials;

"d) consumer, social, civic, and cultural services;

"e) plant-sponsored housing construction;

"3) demand the submission of other programs required by other decrees.

"Article 59. 1. Any entity of the socialized sector, such as an enterprise, a plant, or a branch or affiliate thereof, whose nature of operations is to be fundamentally altered or which is to be shut down, is obligated to notify accordingly the pertinent voivodship people's council. This obligation does not apply to a state enterprise whose parent agency is a local office of state administration.

"2. The voivodship people's council may, upon consulting the basic-level people's council within whose jurisdiction is located the entity referred to in Paragraph 1 above, object to the decision of the entity, within a period of not more than 3 months from the date it is notified of that decision.

"Article 60. 1. The objection may be resolved upon if the reason for the change in or shutdown of the entity is the unprofitability of its operations, in the event that the continuation of that operation is indispensable to meeting local needs.

"2. A condition for resolving upon the objection referred to in Paragraph 1 is the acceptance by the voivodship people's council of the obligation of subsidizing from its own budget the unprofitable operation of the entity concerned.

"3. In the event that the objection is resolved upon, the entity referred to in Article 59, Paragraph 1, is placed under the obligation of continuing its operations during the period it receives a subsidy, on terms and within the schedule specified in the agreement concluded between the council's executive and governing body and the entity concerned.

"Article 61. In the event of an intended shutdown of the entity referred to in Article 59, Paragraph 1, for a reason other than unprofitability, the voivodship people's council has priority in acquiring the assets of that entity, on principles defined in separate regulations.

"Article 62. 1. When the locale, expansion, technology, or scope of operations of a newly established enterprise or plant or of a branch or section thereof, belonging to the socialized sector, is such as to affect adversely the environment, living conditions, or local needs, the concerned people's council or the presidium it authorizes imposes upon that entity the obligation of sharing in [the expenditures on] the expansion of the technical-economic and social infrastructure in the area affected.

"2. The share to be borne by the entity referred to in Paragraph 1 is specified in detail in an agreement concluded between the executive and governing body of the people's council and that entity.

"3. The subject of the agreement should be, in particular, the entity's obligations of paying adequate funds into the council's budget, building or expanding specified technical facilities or installations, or building appropriate facilities or installations for the workforce.

"Article 63. In exercising the function referred to in Article 57, Point 2), the people's councils may:

"1) establish enterprises and other organizational entities;

"2) initiate and undertake jointly with other economic entities projects intended to accomplish tasks relating to local social and economic development and to meeting the needs of the local populace.

"Article 64. 1. On the basis of resolutions by people's councils concerning the matters referred to in Article 63, Point 1), the executive and governing bodies of these councils may act as parent agencies in establishing state enterprises that are hereinafter referred to as "local enterprises.

"2. On the basis of a joint resolution or of similar-sounding resolutions by the concerned people's councils, joint local enterprises may be established. Their parent agencies are the executive and governing bodies named in such resolutions.

"Article 65. 1. Local enterprises are formed on the principles and by the procedure defined in the Decree on State Enterprises.

"2. A local enterprise may be a state enterprise established through a procedure different from that envisaged in Article 64 if a decree or its implementing regulations subordinate it to the local people's council(s).

"3. A local enterprise may be either a normally operating enterprise or a charity enterprise.

"4. The statute of the local charity enterprise is subject to confirmation by its parent agency upon consulting the appropriate committee of the people's council.

"Article 65a. 1. The local enterprise operates autonomously on the basis of its own plans. The directions of development of local enterprises are outlined by long-range and annual area-wide local socioeconomic plans.

"2. The consonance of the plan of a local enterprise with the targets of the area-wide socioeconomic plan is assured by applying economic instruments and through an agreement between the enterprise's director and the parent agency upon consulting the worker council. The obligation of consulting the appropriate committee of the people's council also applies to charity enterprises.

"Article 65b. The Council of Ministers defines, in cooperation with the Council of State, the procedure for transferring to the jurisdiction of basic-level people's councils local enterprises as well as plants and other state entities subordinated to voivodship people's councils.

"Article 65c. 1. To initiate joint projects together with other economic entities, people's councils may, in particular:

"1) conclude with them agreements commissioning or charging them with the implementation of specified tasks;

"2) acquire shares in joint-stock companies and cooperatives;

"3) undertake other legally specified forms of economic activity.

"2. The executive and governing body of the people's council or its appointed representative is authorized to engage in activities relating to the implementation of the measures referred to in Paragraph 1."

25) In Article 62, Paragraphs 3 and 4 are reworded as follows:

"3. The resolutions or ordinances introducing implementing regulations specify the period over which these regulations apply.

"4. The ordinances containing the provisions referred to in Paragraph 2 are subject to approval by the people's council at its next regular session. When approving an ordinance, the people's council may amend it. In the event that it declines to approve an ordinance, the people's council specifies the time limit for its revocation";

26) In Article 72:

a) The following Paragraph 2a is added after Paragraph 2:

"2a. Basic-level people's councils and local agencies of state administration with basic-level competences may decide to announce publicly by means of posters the local ordinances they pass. Such local ordinances become effective 7 days following their announcement if they specify no other effective date or unless otherwise prescribed by special regulations."

b) Paragraph 4 is reworded:

"4. The ordinances referred to in Paragraphs 2a and 3 are published in the official voivodship gazette";

27) In Article 84:

a) The following Paragraph 3a is added after Paragraph 3:

"3a. The termination of labor contract with a councilman is legally invalid unless previously approved by the presidium of the people's council";

b) The following Paragraph 5 is added:

"5. Likewise, the labor relationship of the former councilman during the first year following the expiration of the term of office of the people's council of which he was a member is subject to the special legal protection defined in Paragraphs 2-4";

28) Article 85 is reworded:

"Article 85.1. For attending sessions of the people's council and its presidium and committees, a councilman receives a per diem payment from the budget of the people's council pursuant to the principles and in the amount defined by the Council of State.

"2. The director of the work establishment is obliged to release the councilman from occupational or professional duties in order to enable him to attend sessions of the people's council, its presidium, or its committees, or take part in other activities organized by the council's presidium. The councilman retains the right to remuneration and all benefits from his workplace for the thus released time, which shall count as time worked.

"3. For performing his council duties, the councilman is eligible for:

"1) reimbursement of traveling expenses plus per diem payments on the same principles as those applying to employees of government offices;

"2) the right to free use of urban public mass transit and the buses of the State Automotive Transportation as well as of transportation enterprises on the area under the jurisdiction of the people's council of which he is a member, and in a city divided into boroughs, on the city's area;

"4. The provisions of Paragraphs 2 and of Point 1) of Paragraph 3 apply correspondingly to members of permanent committees of the people's council who are not councilmen themselves;

"5. The provisions of Paragraphs 1 and 2 and of Point 1) of Paragraph 3 apply correspondingly to members of the committees and taskforces referred to in Article 114, Paragraph 3, as well as to members of other consultative and advisory bodies appointed by the people's council."

29) In Article 86 the following Paragraph 2a is added after Paragraph 2:

"2a. The people's council may authorize its presidium to formulate and present on its behalf assessments and recommendations and to take a position on matters requiring consultation of or coordination with the council. Such authorization may not include the executive powers reserved to the people's council itself. The decisions taken by the presidium under the above procedure are to be communicated to the people's council at its next session";

30) In Article 100, Paragraph 1, the period is deleted and the expression "and performs other tasks specified in this Decree as well as in other decrees" added";

31) In Article 113:

a) in Paragraph 1 the expression "is recalled" is replaced with "is discharged";

b) Paragraph 2 is reworded:

"2. The chairman of the people's council directs the work of the director (manager) of the office (workstation) of the people's council";

32) In Article 124 the following Paragraph 2a is added after Paragraph 2:

"2a. The competences of the local agencies of state administration include the consideration of individual cases relating to state administration";

33) In Article 126 Paragraph 2 is reworded:

"2. As the government's representative in the voivodship, the voivode:

"1) coordinates the activities of all the agencies of state administration operating in the voivodship as regards meeting the needs of the populace and promoting the socioeconomic growth of the voivodship;

"2) organizes the monitoring of the implementation in the voivodship of the tasks of state administration ensuing from the decrees, ordinances, resolutions, and executive orders of the national agencies;

"3) assures the cooperation of agencies active on the area of the voivodship with the object of preserving law and public order and also of preventing natural disasters and their consequences;

"4) executes sporadic tasks recommended by the Council of Ministers, the Government Presidium, the Chairman of the Council of Ministers, and the concerned minister of state;

"5) represents the government at state ceremonies and at official encounters on the area of the voivodship";

34) Articles 127 to 131 are reworded:

"Article 127. 1. The voivode is elected and recalled by the people's council through secret balloting.

"2. The voivode is elected for an indefinite period of time from among candidates nominated by the Chairman of the Council of Ministers in cooperation with the presidium of the voivodship people's council.

"3. Recall from the post of the voivode occurs upon the recommendation of the Chairman of the Council of Ministers, presented in cooperation with the presidium of the voivodship people's council, or upon the recommendation of the presidium of the voivodship people's council, presented in cooperation with the Chairman of the Council of Ministers.

"Article 128. 1. Mayors and managers of cities, gmina managers, and city-gmina managers, are elected and recalled by the corresponding basic-level people's councils through secret balloting.

"2. The mayor and manager are elected for an indefinite period of time from among candidates nominated by the presidium of the basic-level people's council in cooperation with the voivode.

"3. Recall from the post of mayor or manager occurs upon the recommendation of the presidium of the basic-level people's council, presented in cooperation with the voivode, or upon the recommendation of the voivode, presented in cooperation with the presidium of the people's council.

"4. In cities representing basic-level administrative divisions which are subdivided into boroughs, the election and recall of the borough manager require moreover a recommendation from the presidium of the municipal people's council and from the mayor of the city.

"Article 129. 1. The appointment and recall of the voivode, or the refusal to accept his report, are handled by the Chairman of the Council of Ministers on the basis of the resolution of the voivodship people's council.

"2. On the basis of the corresponding resolutions of basic-level people's councils, the appointment and recall of city mayors and managers, gmina managers, borough managers, and city-gmina managers are handled by the voivode.

"Article 130. In a case which brooks no delay, the Chairman of the Council of Ministers may charge a suitably qualified person with the duties of the voivode for a period of not more than 3 months; the voivode has corresponding powers of appointment with respect to the mayors and managers referred to in Article 125, Paragraph 1, Points 3) and 4).

"Article 131. In particularly justified cases the Chairman of the Council of Ministers may suspend a voivode from the exercise of his duties for a period that does not transcend the date of the next session, upon immediately notifying the presidium of the voivodship people's council; the voivode has corresponding powers of suspension with respect to the mayors and managers referred to in Article 125, Paragraph 1, Points 3) and 4)";

35) In Article 135:

a) Paragraph 2 is reworded:

"2. The people's council, upon considering the report on the fulfillment of the annual plan and the report on the implementation of the budget, passes resolutions accepting these reports, and thereupon passes by secret

balloting a resolution on accepting the report of the appropriate higher-level local agency of state administration concerning the implementation of the tasks referred to in Paragraph 1”;

b) The following Paragraph 3 is added:

“3. Failure to accept the report is tantamount to recalling the [head of the] appropriate higher-level local agency of state administration. The resolution declining acceptance of the report is transmitted by the voivodship people’s council to the Chairman of the Council of Ministers, and by the basic-level people’s council to the voivode”;

36) In Article 136:

a) In Paragraph 1 the expression “also” is deleted and the expression “unless the decrees or implementing regulations specify otherwise” is added at the end;

b) Paragraph 2 is reworded:

“2. To accomplish certain tasks relating to the safeguarding of law and public order, the appropriate higher-level local agency of state administration may establish a municipal order service on the basis of a resolution by the appropriate people’s council”;

37) In Article 137:

a) Paragraph 1 is reworded:

“1. The appropriate lower-level local agencies of state administration at corresponding levels are the directors of departments and equivalent organizational units as defined in the statute referred to in Article 141, Paragraph 1a, who exercise powers of state administration defined in particular decrees”;

b) Paragraph 2 is deleted;

c) The following Paragraph 5a is added after Paragraph 5:

“5a. The voivodship people’s council may, upon consulting the appropriate basic-level people’s councils, designate a basic-level office of the inspector of education and upbringing who performs the duties of the basic-level agency of state administration charged with pedagogical supervision of several basic-level administrative divisions”;

38) Article 139 is reworded:

“Article 139. 1. The appropriate higher-level local agency of state administration appoints and recalls [the directors of] the appropriate lower-level local agencies of state administration upon consulting the presidium of the appropriate people’s council.

“2. The appointment of [the director of] an appropriate lower-level local agency of state administration who exercises specialized supervision on the basis of the laws in force also requires consulting the appropriate higher-level agency of state administration.

“3. Staffing the posts of directors of departments which are not part of state administration occurs in the form of nominations after consulting the presidium of the people’s council.

“4. The provisions of Paragraph 3 apply correspondingly to staffing the post of director of the voivodship office, in the event such a post is introduced, and of the secretary of the basic-level office”;

39) In Article 140 the following Paragraph 1a is added after Paragraph 1:

“1a. The local higher-level state administration may issue guideposts to directors of departments and equivalent organizational units concerning the implementation of resolutions of people’s councils, and as regards the organization of labor at these organizational units it may also issue official recommendations”;

40) In Article 141 the following Paragraphs 1a-1c are added after Paragraph 1:

“1a. The organization of the office is determined by its statute as established by the higher-level local agency of state administration upon consulting the presidium of the people’s council.

“1b. The statute of the voivodship office is subject to confirmation by the Chairman of the Council of Ministers, and of the basic-level office, by the voivode;

“1c. The statute of the office includes in particular a roster of the office’s departments and equivalent organizational units subordinated to or supervised by the higher-level local agency of state administration, the competences of each of these units, and the enterprises toward which that agency acts as the parent agency. The statute also specifies which departments and equivalent organizational units constitute lower-level local agencies of state administration”;

41) In Article 143, Paragraph 2, Point 4) the expression “suspended or” is added every time after the expression “with decrees and”;

42) The following Article 150a is added after Article 150:

“Art. 150a. The appropriate basic-level people’s council may resolve in favor of the organization of a local self-government in a rural area that is part of a city (or a borough), on the same principles as those applying to rural self-government, or in the case of an urbanized area

that is part of a rural gmina, the council may resolve in favor of a local self-government on the principles applying to urban self-government";

43) In Article 152:

a) Paragraph 4 is reworded as follows:

"4. Elections to bodies of local self-government take place within 6 months from the date of elections to people's councils";

b) The following Paragraph 5 is added:

"5. The term of office of local self-government bodies expires on the date of their re-election";

44) The following Paragraph 152a is added after Paragraph 152:

"Article 152a. The chairmen of executive bodies of self-governments who are invited to participate in the session of the people's council or in other work organized by the council's presidium are entitled to the rights referred to in Article 85, Paragraph 2, and Paragraph 3, Point 1)";

45) In Article 163 Paragraph 3 is reworded:

"3. The rural meeting may authorize the rural council to pass on its behalf resolutions on specified matters for a specified period of time and to make assessments and recommendations on matters referred to in Paragraph 1, Point 5), as well as to act in the capacity of a permanent committee for voluntary civic projects";

46) In Article 169 Paragraph 3 is reworded:

"3. The meeting of housing-project inhabitants (or a conference of their delegates) may authorize the housing-project committee to pass on its behalf resolutions on specified matters for a specified period of time and to make assessments and recommendations on matters referred to in Paragraph 1, Point 5), as well as to act in the capacity of a permanent committee for voluntary civic projects";

47) The title of Chapter 15 is inserted after Article 176;

48) In Article 181 the following Paragraph 3 is added:

"3. For the year 1990 the shares referred to in Article 50, Paragraph 3, Point 3), are fixed by the budget decree for that year at an amount not lower than that adopted in this provision";

49) Article 184 is reworded:

"Article 184. Persons holding until 1 January 1989 the offices of voivodes, city mayors, city managers, gmina managers, borough managers, and gmina-city managers, retain these offices until recalled by the procedure established in the decree";

50) The expression used in the text of this decree, "the concerned minister for local administration and economy," is in appropriate cases replaced by the expression "the concerned minister for administrative matters."

**Article 2.** For the year 1989 the shares referred to in Article 50, Paragraph 3, Point 3) of the decree referred to in Article 1 are fixed by the budget decree for that year at an amount not lower than that adopted in this decree.

**Article 3.** Elections to local self-government bodies for the new term of office shall be held not later than 31 December 1988.

**Article 4.** The Chairman of the Council of State shall, by means of a proclamation, announce the uniform text of the Decree of 20 July 1988 on the System of People's Councils and Local Self-Government with allowance for the amendments published prior to the day of the issuance of the standard text and upon following a sequential numbering of chapters, articles, paragraphs, and points.

**Article 5.** This decree is effective as of 1 January 1989 with the exception of Article 1, Points 27) and 28), and Articles 2-4, which are effective as of the day of publication.

[Signatures]

Chairman of the Council of State: W. Jaruzelski  
Secretary of the Council of State: Z. Surowiec

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## GERMAN DEMOCRATIC REPUBLIC

### Trade in Capital Goods, Commercial Enterprises Studied

23000013 East Berlin

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[Article by Prof Hans-Christoph Steudtner, Dr of Economics, born 1936, director of the science branch in the section for socialist enterprise, Leipzig College for Commerce and Trade: "Trade in Capital Goods in the Context of Further Development of the National Economy in Socialism"]

[Excerpt] One of the key issues of the new stage of our economic policy is the need to steadily deepen intensively expanded reproduction and give it permanent foundations.<sup>1</sup> The directive of the 11th SED Congress comments this as follows: "The essence of the new stage in the realization of the party's economic policy consists in orienting all measures for mastering the scientific-technological revolution to the assurance of economic growth by lasting and comprehensive intensification as well as most efficiently organizing the circulation of intensively expanded reproduction in all its phases."<sup>2</sup>

It is consequently an absolute necessity to involve in the processes of comprehensive intensification all phases of comprehensive intensification, including the phase of circulation. As we all know, circulation—in its concrete form of goods circulation—always represents the unity of physical goods movement and value realization. While physical goods movement is the continuation of production processes within circulation and therefore of a productive nature,<sup>3</sup> the change of form of the merchandise is essentially unproductive.<sup>4</sup> Still, regardless whether specific operations in circulation are of a productive or unproductive nature, it is an imperative to steadily make them more efficient. Together with distribution, goods circulation links production and consumption. It follows that the organs carrying out circulation tasks in the national economy act as intermediaries between producers and consumers. At the same time, their work may not be limited to passive mediation between production and consumption. Instead they need to actively affect planned production and adequate consumption. This active influence of circulation on consumption has various goals and directions, depending on whether the particular consumption represents final or productive consumption—and furthermore whether it is individual or social consumption. Capital goods and consumer goods circulations differ profoundly not only in their nature and status in the reproduction process but also in their goals and tasks.

Marx defined capital goods circulation by stating that "the so-called exchange between traders and traders...(is) determined entirely by production with respect to its organization as well as (being) itself a producing operation."<sup>5</sup> By contrast, "exchange (appears)...only

independently by the side of and indifferent to production in the last stage, when the product is directly exchanged for consumption."<sup>6</sup> Consequently various markets emerge: "The reconversion of money to objective elements or prerequisites for production assumes their presence. It establishes the various markets where the producer finds them as a commodity—in the hands of the trader—markets...essentially different from markets for direct and final consumption."<sup>7</sup>

The socialist capital goods trade, therefore, represents an independent organ of the circulation of capital goods, carrying out specific circulation processes that fundamentally differ from the consumer goods trade both with respect to targets and methods.<sup>8</sup>

Capital goods trade itself is basically defined as material-technical supply—primarily the supply of raw materials and other materials to productive consumers. This is its essential function, consisting in the planned connection within the economic reproduction process of production and distribution processes with productive and social consumption processes. It is accomplished by providing demand appropriate supplies to productive and social consumers<sup>9</sup> and needs to be guaranteed at the least possible cost, whether once only or repeated. Supply is indivisibly linked with many services and the implementation of material as well as basic asset economic requirements. Each actual supply event must be appropriate with respect to quantity, date, range, quality, price, and location.

In the GDR the circulation of capital goods traditionally proceeds in two types of operation—directly or by the intermediary of the capital goods trade. At the present time around three quarters of all capital goods are directly exchanged between producers and consumers. In other words only 25-30 percent of capital goods circulation is handled by the capital goods trade as the intermediary between producers and actual users. This ratio of the two kinds of circulation raises the question of the place that can and should be occupied by the capital goods trade with regard to the future organization of capital goods circulation—taking in account its comprehensive intensification. This question appears entirely justified, because a relatively closed circulation prevails in the combines (specially the combines of industry). It includes sales and procurement processes, in other words circulation processes. Given the fact that combine establishment has been virtually completed, and largely stable structures have emerged in our national economy, it is necessary to answer the question of the capital goods trade's place in the framework of the perfection of material-technical supply from the aspect future developments, largely on the basis of the analysis of its present status in the national reproduction process.

### The Status and Tasks of Capital Goods Trade in Material-Technical Supply

The following features represent starting points for the assessment of the status and functions of the capital goods trade in the scope of material-technical supplies:



*First:* The various branches of the capital goods trade are currently handling supplies for some 500,000 customers, mainly productive consumers but also social consumers and to some extent the public at large—usually indirectly via the domestic consumer goods trade. Supplies for the general public account for about 14 percent of the capital goods trade's total turnover. Twelve centrally managed commercial branches represent the most significant section of the capital goods trade (see survey No 1). In addition, there are other organs of the capital goods trade, generally also centrally managed and included in the state accounts of the capital goods trade sector.<sup>10</sup>

The assortment of the capital goods trade ranges across very many items (see survey No 2). The various branches primarily establish their assortments according to their specialties; in other words they largely conform to the production assortments of the various industries. In a few cases the assortment is oriented to the needs of specific groups of consumers, such as the trade in construction materials and that in industrial textiles. This type of assortment orientation in conformity with demand groups will assume greater importance, because it allows for the better realization of the basic benefit of the capital goods trade—a broad range of supplies for the individual user. Currently, for example, tests are under way of so-called construction technological supplies, in particular for the reconstruction and repair of the older housing stock. The respective construction sites are comprehensively supplied with the entire material needed at the appropriate time. However, this and other modern methods of material-technical supply by the capital goods trade still tend to be the exception.

The capital goods trade also supplies a multitude of small and medium users. The chemical trade, for instance, supplies 120,000 customers, the construction materials trade roughly 100,000, the trade in industrial textiles about 70,000 and the machine construction trade some 35,000 (see survey No 2). On the average small and smallest users account for 80-90 percent of the total. Not only many small enterprises of various ownership types appear as small and smallest users. State combines and combine enterprises also turn up with respect to specific products.

The trade network of the capital goods trade displays quite some ramifications, and—since the supply spheres of the trading enterprises often coincide with the area of a district—the trading enterprise appropriate for the individual customer is normally in the latter's vicinity. The centrally managed capital goods trade currently disposes of about 130 trading enterprises. Moreover, at least the larger enterprises ensure physical closeness to their customers in the respective supply area, usually by means of regionally structured enterprise departments and warehouses. In various trade branches specialized stores are also available for meeting small scale requirements, in particular to satisfy small but urgent needs.

*Second:* The capital goods trade is efficiently involved in circulation mainly if:

- Significant differences occur between the number of producers, their types of manufacture and output rhythms on the one hand and the number of users and their need dimensions and user rhythms on the other; in other words, if many users confront one or a few producers with mainly large lot and series dimensions per product or product group and, therefore, considerable time lapses in the manufacture of these products;
- The need is for the conversion of production assortments to user assortments or for assortments to be approximated to user needs;
- The demand is urgent and needs to be adequately met, such as is the case primarily for the need for replacement parts, repair materials and material for research and development;
- Work needs to be done to make the respective items fully suitable for consumption—such as drying, cutting, conversion, assembly, completion—and if, due to economic requirements, this work must be carried out by the capital goods trade.

Furthermore, the capital goods trade specializes in carrying on the circulation of imported capital goods in the GDR because, from the standpoint of rationalization, generally only one enterprise deals with the domestic circulation of one product and performance nomenclature heading if more than two domestic users are concerned.<sup>11</sup> The capital goods trade also needs to be involved in specific instances from the aspect of supply control, in other words the necessary operational distribution of particular products in case of a temporary divergence of between yield and demand in excess of their balancing, as well as from the aspect of representing the interests of small and/or medium users vis-a-vis the balancing organs and direct suppliers.

*Third:* Standardized products are typical for circulation by way of the capital goods trade. These products are in great demand, represented by a multitude of users. They are mainly raw materials and materials derived from primary yields (increasingly also from secondary yields). They also include some specific tools of trade such as odd machines and devices, means of transportation and communication.

Standardized products usually having multiple utilization and operation capacities and therefore in demand by a multitude of users are generally circulated with the greatest possible economic profit by way of the capital goods trade. That is due to the fact that the latter is able to carry on productive and unproductive circulation processes on a mass basis and, therefore, concentratedly. By comparison to more or less isolated handling in direct transactions, the realization of the same processes—such

as transportation, handling, storage and even management—makes it possible for the proper organization to achieve significant savings in working hours and material funds.

Economic effects also occur, especially because standardized products of mass demand and a multitude of users bring about complex and multilayered circulation situations and needs, above all with respect to the need to bridge some considerable timing, local and assortment discrepancies between output and demand.

It is therefore up to the capital goods trade to handle mainly *those* products and supply *those* customers who are subject to such complex and complicated circulation situations. In these situations the involvement of the capital goods trade yields an increase in the efficiency of the national economy. At the same time we need to go further. The above mentioned complex and complicated circulation processes are simply not manageable by direct supply. In other words, the industrial sales organs of usually monospecialized producers of mass merchandise are unable to handle direct supplies for small users whose needs tend to be intermittent. In many cases direct deliveries by the manufacturers would actually complicate the supply situation of customers, because—again taking in account our largely monospecialized production—many industrial enterprises would have to act as component suppliers rather than one or just a few enterprises of the capital goods trade.

It follows that the capital goods trade carries out objectively important tasks relating to the circulation of capital goods in the national economy. In fact the actual ratio of direct supply and circulation via the capital goods trade only very inadequately reflects the extent and quality of the circulation processes, their realization by means of the two types of circulation and, especially, the status of the capital goods trade.

The capital goods trade's specialization in circulation processes not only offers opportunities for carrying them out on the national level. It also benefits the customers: The capital goods trade is able to and offers the prerequisites for supplying its customers more quickly, at shorter intervals and, therefore, in smaller quantities as well as a broader range per delivery. Moreover, in many cases it also offers additional customer specific services such as advice, drying and cutting services, servicing, assembly, conversions and repairs. Leasing of capital goods, still in its infancy now, will grow in importance.

*Fourth:* The supply tasks of the capital goods trade inevitably involve the representation of the interests of their mainly small and medium customers vis-a-vis the responsible organs in the balancing process and the contractual guarantee and direct realization of component deliveries. It is just this task that can best be accomplished by an institutionally independent capital goods trade operating as an active intermediary between producers and consumers and acting on behalf of its

customers in the stage of balancing as well as realization. When, therefore, the capital goods trade is integrated in combines of the producer or customer sector, its important role as an active intermediary is either lost or seriously restricted. Our experiences bear witness to that fact.

*Fifth:* The capital goods trade is a significant national storekeeper for the capital goods in its trading inventory. Due to the great necessity for its stocks to be readily available, these need to be further expanded at the expense of the still unduly large stocks held by users. To cite an example: In early 1985 the capital goods trade held only 57 percent of the total stock of roller bearings and 32 percent of that of screws, although it handles 74 percent and 64 percent respectively of the circulation of these product groups. In the same year users held 38 percent of the stock of roller bearings and as much as 61 percent of the stock of screws.

The necessity for the circulation of some capital goods by means of an institutionally independent capital goods trade is clearly justified even if we merely consider its present status in the national economy. No efficient circulation of capital goods could possibly occur in the GDR without it. The importance of the capital goods trade is likely to increase in future, considering the fact that the quality and efficiency of this method of supply as well as the flexibility and responsiveness linked thereto. The 11th SED Congress therefore assigned it the following target:

"The capital goods trade must effectively help the material-technical assurance of the national economy's performance growth by the consistent implementation of the government's supply policy, coupled with the improvement of the effectiveness of stocks, their flexibility and responsiveness to national requirements."<sup>12</sup>

#### National Demands on the Further Development of the Supply Services of the Capital Goods Trade

The future development of the national economy decisively features the need "to take another step forward with regard to the new quality of economic growth that is determined by the broad and efficient use of key technologies."<sup>13</sup>

The planned vigorous growth of the national economy requires the comprehensive utilization of the results of scientific-technological advances and, in particular, new steps for greater processing at all stages of production, the extensive use of key technologies (primarily micro-electronics), computer aided planning, design, production preparation and control and flexible automation. This creates the most favorable possible conditions for lowering specific materials use. In the years 1986-90, it is planned to lower by an average of 4 percent per annum the specific consumption of nationally important raw materials and other materials.<sup>14</sup> The full implementation of materials conservation will result in a further

reduction of specific materials use and act as a damper on the development of turnover. Other factors will also contribute to a decline in turnover in subsequent years. Examples are:

- The guarantee of integrated materials circulations including the "internal" utilization of waste products and wastes;
- The ongoing concentration of production;
- The technical sophistication of many products and the related necessity to install specific producer-side sales systems;
- The growth of special order production and the related direct cooperation relations between customers and suppliers;
- The replacement or at least limitation of the imports of important raw materials and other materials, especially lower processing stages.

On the other hand, we must certainly not forget that certain factors operate for the growth of turnover, such as:

- The planned vigorous growth of output, in particular industrial goods production;
- The steady rise in demand and public purchasing power also and precisely for such products with respect to which the capital goods trade is involved in supply operations;
- The trend to the improvement in the ratio of supply to demand with respect to raw materials and other materials as well as investment goods, plus the opportunity related thereto to satisfy some of the backed-up customer demand;
- The ongoing growth of imports of capital goods due to the international division of labor—specially within CEMA—above all the spread of more advanced processing stages. The capital goods trade handles the circulation of these imports within the GDR;
- The deepening specialization of production coupled with the establishment or further consolidation of small but efficient enterprises;
- The increasing efficiency of socialist cooperatives, craftsmen and other small private traders and, therefore, their growing demand for capital goods.

The complex and in some respects very varied conjunction of these and other factors (not mentioned here) affecting the various products, product groups as well as the enterprises and branches of the capital goods trade will result in a varied development of turnover even in matters of detail. Nevertheless we must expect that the

factors operating to damp down the development of turnover in the capital goods trade (especially the ongoing lowering of specific materials consumption) will be stronger at least through the mid-1990's than the factors speeding up turnover, so that the effect of the latter is bound to be overcompensated and sometimes entirely neutralized.

*It may therefore be assumed that the turnover growth of the entire capital goods trade will in the coming years fall below national growth rates and amount to about 1-2 percent per annum.*

Though the above development holds basically true for all branches of the trade, some differences are bound to occur:

- Turnover will stagnate or rise only slightly in branches of trade or trade combines that deal mainly in raw materials, semifinished products and relatively little processed products.
- Branches of trade or trading combines which are involved to a relatively large extent with the supply of the general public (in terms of their total turnover) and also those which deal mainly with products of more highly processed products (the products being subject to considerable innovation processes) will be able to achieve annual growth rates of up to 2 percent.

When we take account of these fundamental conditions for further development, it is imperative for certain persisting modes of thought and the actions following thereupon to be abandoned promptly. In the 1960's and 1970's the need was for unilateral orientation on and interest in turnover (in other words, for raising turnover "at any price"). To some extent this orientation still prevails, although it sometimes operated to the detriment of demand appropriate supplies (for instance by according preference to bigger customers or large volume deliveries). It is urgently necessary now for it to be superseded. Of course this presumes that state plan targets direct attention to the genuine development of turnover, based on planned demand and supply situations. Moreover, performance appraisal as well as economic incentives (such as the establishment of the premium fund and performance-related wages) should not be basically directed to turnover and its increase. Instead the primary criterion needs to be the achievement of quality, that is the demand appropriateness of supplies. In this context we need to develop and apply suitable indices for measuring the demand appropriateness of supplies.

**Survey No 1—The Most Important Trading Branches of the Centrally Managed Capital Goods Trade**

Management Organ of the Capital Goods Trade	Trading Enterprises	Central State Organ
Machine Construction Trade Combine VE	9 trading enterprises, 1 enterprise for rationalization aid construction, 1 enterprise for research and development	Ministry for Construction of Machine Tools and Processing Machinery
Secondary Raw Materials Recovery Combine VE	15 trading enterprises	Ministry for Glass and Ceramics Industry
Minol Combine VEB	9 enterprises	Ministry for Chemical Industry
State Chemicals Office	7 trading enterprises, 1 foreign trade enterprise	Ministry for Chemical Industry
Metallurgy Trade VEB, State Owned Foreign and Domestic Trade Enterprise	7 enterprise sections for domestic trade, 1 enterprise section for rationalization aid construction	Ministry for Ore Mining, Metallurgy, and Potash
Construction Materials Supply Combine VEB	15 enterprises	Ministry for Construction Industry
State Textiles Office	8 supply offices	Ministry for Light Industry
State Leather Office	4 supply offices	Ministry for Light Industry
State Paper and Office Supplies Office	9 supply offices	Ministry for Glass and Ceramics Industry
Pharmaceuticals and Medical Equipment Supply Office	9 supply depots, 1 central depot	Ministry for Health
Lumber Trade Combine VEB	6 trading enterprises, 1 production enterprise, 1 import enterprise	Ministry for District Managed Industry and Foodstuffs Industry
Progress Combine VEB for Farm Machinery/Agrotechnic Central Enterprise, Leipzig	14 trading enterprises	Ministry for Construction of General Machinery, Agricultural Machinery, and Vehicles

**Survey No 2—Trading Assortments and Number of Items in Trading Assortments of Selected Trading Branches**

Trading Branch	Trading Assortment	Number of Items
Machine construction trade	Products of the metal processing industry, electrical engineering, and electronics	310,000
Chemicals trade	Chemical and chemical-technical products, photographic materials, varnishes/dyes, tires, rubber/plastics, protective clothing, welding supplies	65,000
Trade in industrial textiles	Materials for the clothing industry and the footwear and leather goods industry as well as finished textiles for facilities of social consumption, such as household and baby linen, work clothes, nurses' wear	90,000
Lumber trade	Conifer and leaf wood, veneer, sheets	12,000
Paper and office supplies trade	Paper, cardboard, paper goods, office supply items, wallpaper, graphic supplies, chemical-technical supplies, picture postcards	18,000
Construction materials trade	Products of the construction materials industry, construction components made of wood and other basic materials, heating equipment, fixtures, sanitary earthenware	45,000
Farm machinery and parts trade	Farm machines and spare parts, machines for the food and packaging industries	About 1,500 machines, 100,000 various spare parts, 8,000 machines for the food and packaging industries

Footnotes

1. See "Bericht des Zentralkomitees der Sozialistischen Einheitspartei Deutschlands an den XI. Parteitag der SED, Berichterstatter: Erich Honecker" [SED CC Report to the Eleventh SED Congress, Reporter: Erich Honecker], Dietz Verlag, Berlin 1986, p 54.

2. "Direktive des XI. Parteitages der SED zum Fuenfjahrplan fuer die Entwicklung der Volkswirtschaft in den Jahren 1986 bis 1990" [Directive by the Eleventh SED Congress to the Five-Year Plan for the Development of the National Economy in 1986-1990], Dietz Verlag, Berlin 1986, p 16.

3. See K.Marx/F.Engels, Collected Works, Dietz Verlag, Berlin 1956ff, Vol 25, o 290.

4. Ibid, Vol 24, p 138.

5. K.Marx, "Grundrisse der Kritik der Politischen Oekonomie" [Outlines of the Critique of Political Economy], Dietz Verlag, 1974, p 20.

6. Ibid.

7. Ibid, p 434.

8. Supplies for social consumers handled by the capital goods trade for products and product groups display specific features that significantly differ from supplies for individual consumers but coincide largely with supplies for productive consumers. That is why, in contrast to supplies for the general public, supplies for productive and social consumers are recorded as material-technical supplies.

9. This function of the capital goods trade, if effective, does not exclude direct and indirect supplies for individual consumers.

10. See "Directive on the Centralized Reporting of the State Capital Goods Trade," issued by the GDR Council of Ministers, Central State Administration for Statistics, Berlin 1986.

11. See "Third Implementing Decree to the Contract Law—Economic Contracts Relating to Exports and Imports—of 25 March 1982," GESETZBLATT DER DDR, Part I, No 16/1982, pp 333, article 32.

12. "Directive by the Eleventh SED Congress..." as before, p 40.

13. "Aus dem Bericht des Politburos an die 6. Tagung des Zentralkomitees der SED, Berichterstatter: K.Hager" [From the Politburo Report to the Sixth SED CC Plenum, Reporter: K.Hager], Dietz Verlag, Berlin 1988, p 28.

14. See "Directive by the Eleventh SED Congress..." as before, p 22.

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YUGOSLAVIA

**Declining Standard of Living Reported**  
28000002 Belgrade EKONOMSKA POLITIKA  
in Serbo-Croatian 1 Aug 88 pp 9-11

[Article by Feda Zimic: "Standard of Living: Closer and Closer to the Bottom"]

[Text] Economic life in Yugoslavia today really proceeds in accordance with the maxim of one of the main Yugoslav system designers, that "at least no one will be able to accuse us of living in a social backwater." And really, figures and news arrive at such a pace that we often have the opportunity to think about how little time separates us from the well-known Latin American unbridled inflation, in which it has been considered a great achievement—we are speaking of Argentina—that as a consequence of the current stabilization policy they have been able to print a daily price list for cafe services, instead of changing several times a day the prices written in chalk on a blackboard. Although this may perhaps seem like tasteless humor, the facts are inexorable and striking; not just because Yugoslavia, since 1984, when a 50 percent rate of inflation was surpassed for the first time, has in scarcely 4 years attained a monthly rate of inflation whose current annual trend is close to 900 percent, but also because the indications of a possible collapse and a plummeting of the populace's standard of living must have been clear to people with the power of decisionmaking long before the "ordinary" citizens were able to feel them for themselves, and especially before the system reached the dead end of a ideological and political blockade.

**Uncontrolled Figures**

Although October 1978 arguably represents the highest level of purchasing power for the citizens of the new Yugoslavia, it was already clear then that the basis for that wealth lay in the clouds of a false wealth borrowed from abroad. Even then, it had to be clear to any statistician, and especially to any politician with a bit of a feeling for economic analysis, that the gap in the overvaluation of the dinar and the absence of a basis for high wages in the growth of productivity were increasing from month to month. This is, perhaps, best shown by the composite analysis by Petrasin Petrasinovic, the director of the Institute for Market Research in Belgrade, according to which, for example, the dinar was devalued by 7,200 percent in terms of the American dollar between 1971 and the end of 1987, and by as much as 14,700 percent in terms of the German mark. During the same period, retail prices increased by an unbelievable 20,750 percent.



On the other hand, nominal personal incomes also show figures running wild: in December 1987, for example, the nominal personal income (the average one) was 269,836 dinars, while in December 1971 it was only 1,731 dinars. This means that during this period the nominal personal income was increased by a fantastic 15,500 percent. Such figures actually give better opportunities for various comparisons, starting from the fact that today, for the 1971 wage, you can buy somewhat more than 2-3 newspapers, and then you can begin to calculate whether the money that you have to pay for some good weighs more than the good itself. The entire story of examples of the worthlessness of the dinar is most interesting to those who see the humorous side of things in this. Economic analysts, however, are virtually faced with insurmountable barriers of data incomparability, since according to past experience, in just one quarter so far price changes of between 30 and 40 percent have occurred; in practice, this means that by constructing different deflation weights in economic trends, you can obtain completely contradictory results, or, in other words, you can present any thesis for which you have exact statistical and numerical support.

That is precisely what many people have done in official economic policy, but probably the most drastic example is associated with the time of the notorious breaking of the so-called rigid relations with the International Monetary Fund, when the federal government, in accordance with assessments by its experts, cut interest rates, precisely on the basis of unrealistic assessments of inflation and its trends. The price of such a stretching of the facts on behalf of a completely unrealistic policy can hardly be established exactly, but it is quite certainly extremely high, and not only because of the definite ruin of the dinar, but also because of the inauguration of the political principle of extreme economic voluntarism during the absent-minded periods of this state's economic fate.

#### **Standard of Living Going Downhill**

Nevertheless, even if official policy can allow itself to be deceived by the balancing act of various indices and assessments based on them, the citizen's personal or family budget denies him even the notion of anything like that. Personal incomes (the average), according to the official statistics, expressed in German marks, remained in 1987 at the same level as in 1981. In dollars, however, they were 101 percent higher, but that is a result of the differing relationship between the dollar and the mark, since in December 1971, for example, the dollar was worth 3.22 marks, and in December 1987 it was only worth 1.6 marks. Leaving aside the fact that the average personal income, measured in foreign currency, did not change in the course of 16 years, while in the meantime the average personal income of workers in the foreign countries in question increased several times over, the fact that the average Yugoslav monthly personal income amounts to 200-odd marks says little about the real change in the purchasing power of that income on the Yugoslav market.

Yugoslav statistics do not provide data or an analysis of the so-called consumer basket. Perhaps this is a consequence of the philosophy of poverty from some higher level, which is accustomed to having the average worker and citizen of this state consent to any existential level, and to having this same basket, which has become increasingly fuller and more replete from year to year for less and less money, get closer and closer to the bottom in our country.

What is clear to everyone, and what amounts to an expression to which we have all become numb, is that the decline in the standard of living is difficult to support with facts, precisely because of inadequate statistics. It is only sporadically that some institute announces the fact that the population's diet—which is the most important item in consumption—is becoming increasingly dominated by carbohydrates, or, in other words, people are increasingly eating plain bread. Unfortunately, no one can tell you reliably how much meat the average Yugoslav or even the average Yugoslav household eats annually, or how much bread or chocolate, how much milk is drunk, or how much is spent on personal hygiene. It is difficult not to believe that to the same extent to which the happiness of a bountiful table has disappeared without a trace for the average family, the need to give objective warnings and information about this has also disappeared.

The few data give only a pale picture of the situation. In Yugoslavia, there are somewhat more than 5.9 million households, and each has an average of 3.51 members, 1.06 of whom are dependents. The average Yugoslav household obtains 87.7 percent of its budget from monetary earnings (ranging from 82.6 percent in Bosnia-Herzegovina to 92.7 in Slovenia), 0.7 percent from loans (ranging from 0.2 percent in Montenegro to 1.1 percent in Slovenia), and 11.6 percent from earnings in kind. The latter is particularly interesting to examine by given areas, since it is shown that households in Bosnia-Herzegovina supply as much as 16.8 percent of the family budget in kind, in contrast to hardly 6.1 percent in Slovenia. Households in Kosovo supply as much as 20.5 percent of the family budget in kind. The figures for the rest are Montenegro, 16.1 percent; Croatia, 11.1 percent; Macedonia, 7 percent; Serbia proper, 13.3 percent; and Vojvodina, 11 percent.

The average Yugoslav family obtains 54.1 percent of the monetary funds for the family budget from wages, 2.2 percent from earnings outside the regular job, 12.4 percent from pension income, 1.5 percent from other social benefits, 1.5 percent from remittances from abroad, 8.2 percent from leased property, etc., 0.8 percent from gifts, and 5.6 percent by reducing savings. According to the data for last year, which should be taken as an indicator of the current situation only with extreme reservations, the average Yugoslav household used 36.6 percent of its monetary income for food. It spent 4 percent of the money on drinks, 1.7 percent on tobacco, 9 percent on clothing and shoes, 2.1 percent on

apartment rent, 7.8 percent on fuel and lighting, 3.8 percent on furnishings, 2.9 percent on hygiene and health care, 3.9 percent on education, culture, and entertainment, 6.3 percent on transportation and postal, telephone and telegraph services, 0.4 percent on membership fees, 1.4 percent on duties and taxes, 5 percent on outlays for the home and property, 1.8 percent on debt repayment, and 10 percent on savings.

The average household in Yugoslavia obtained 81 percent of its earnings in kind for food, 7 percent for drinks, 8.8 percent for fuel, and 3.3 percent for other items.

Statistics cannot say what was happening to the Yugoslav standard of living in the course of this year. It is quite certain that there was a further restructuring of the family budget, in which, although more is being allocated for food, people are eating increasingly worse, dressing worse and worse, spending less and less on the renewal of household appliances and furniture, and driving automobiles that are increasingly older and more unsafe. The decline in the standard of living, however, also means a blow to the quality and variety of products, since it is quite certain that Yugoslav producers, in planning their product range, are guiding themselves primarily by the needs and capabilities of that average and increasingly poorer customer. This naturally has as a further consequence the fact that in exports we can offer neither goods of adequate quality nor designs for the needs of the developed market, but only for this poor domestic one, while one must also not overlook the fact that there are more and more Yugoslav products of precisely that kind that cannot find buyers even in East European markets. The latest data, through April, indicate that the average personal income of employees in Yugoslavia was somewhat more than 318,000 dinars. Nevertheless, the data from two months ago indicate that more than 60 percent of Yugoslavs are living with earnings far below the guaranteed minimum. On the other hand, one Zagreb institute calculated that for a 4-member family, the minimum budget was 750,000 dinars. Obviously, the enormous majority of the population is living with far less than those earnings. That is also indicated by the agreed-upon guaranteed minimum personal incomes that the strikers obtained after coming to Belgrade. They ranged from 170,000 to 190,000 dinars per month. It is an extremely open question how long such personal incomes will suppress the wave of strikes and new marches in front of state institutions.

### The World and Us

According to the OECD's data, Yugoslavia is arguably the poorest country [in Europe], measured in terms of a per capita income of \$953. Turkey is ahead of us, with \$2,700 per capita, Greece with \$4,100, Austria with \$6,300, Sweden with \$6,800, Great Britain with \$7,150 and Belgium with \$50 more, France with \$7,400, Switzerland with \$12,300, and so on. Although it is difficult to establish any precise correlation between the purchasing power of the average Yugoslav worker or family, let

us try to conclude this from the chart of the relationships of consumer prices in the developed countries, where Denmark is taken as the 100 percent consumer basket, but the most expensive in comparison with the rest of the countries. One must bear in mind that according to the latest methodology, the Western world's consumer basket contains between 1,300 and 1,500 different products and services, and that study will soon appear on the pages of this newspaper.

We also give the proportionate expenditures for the family budget of an average Danish family—a household that has 2.6 members. We give selected prices for basic food products in West Germany, in regard to which one should bear in mind that the average monthly wage in West Germany in 1986 was 4,322 marks for men and 2,764 marks for women, and 3,740 for the average worker, which represents a 4.2 percent increase from a year earlier. German statistics show that the average German family had a monthly monetary income of 2,865 marks. At the same time, the state had 2.8 million unemployed, for whom it allocated social assistance in various forms in the amount of 20.824 billion marks, of which 8,577 billion marks were given in the form of direct monetary assistance, and the rest through free housing, furniture, clothing, transportation, etc. The general average for social assistance in West Germany is 400 marks.

9909

### Effect of Restrictive Measures on Economic Trends

28000004 Belgrade EKONOMSKA POLITIKA  
in Serbo-Croatian 15 Aug 88 pp 9-10

[Article by T. Dumezic: "Economic Trends: Budget Enables Growth"; first paragraph is introduction]

[Text] Public consumption two and a half times greater than investment—How much is the real budget?—Countereffects of the restrictive economic policy measures.

The restrictive economic policy measures (control over personal income, money and credit, high interest rates) are contributing to a decrease in demand, an acceleration in the standard of living, a decrease in production and an increase in insolvency. They are not contributing, however, to one basic aim—reducing inflation—and it is a well-known fact that an increase in prices that is significantly greater than the planned increase, combined with the imposition of restrictive measures in the area of wages and credit, will contribute to an acceleration in social pressures and to the bankruptcy of the entire public economy. The fact that developments are in fact moving in this direction is demonstrated by data on trends in production, investment and earnings, and on the growth in public consumption and strikes. In addition, data on the financial results of economic transactions in the period from January to June of this year will indicate that we are already on the threshold of bankruptcy.



All of these things are inevitable consequences of the system, but not consequences of the self-management system. That is, they are not fundamentally consequences of the 1974 Constitution and the Law on Associated Labor [ZUR]. Both the Constitution and the ZUR have made possible a different development—a different means of implementing social ownership, distribution on the basis of past labor and investments motivated by profit. Instead of this type of development, everything has been nationalized, and the sociopolitical communities and organizations are deciding about practically everything without being held responsible. It is precisely because the system has been implemented in this way—and this type of implementation makes it possible to maintain the monopoly of power—that the economic and social effects are those indicated by the statistics.

### Fall in Production and Standards

Industrial production is declining. This relates mainly to the production of investment goods, because investment is nearly nonexistent. In the period from January to May of this year, industrial production was nearly two percent less than during the same period last year. Moreover, there was a one percent decrease in the production of intermediate goods and goods for personal consumption, while production of labor resources was six percent less. Stocks in industry were six percent less in terms of physical volume. Part of the reason for this was the decrease in stocks of intermediate goods (13 percent), while stocks for labor resources and goods for personal consumption increased by two percent each, which is the result of the fundamental reduction in investments and the diminished standard of living of the population.

Turnover in retail trade is also decreasing. In the period from January to May of this year, it was (in fixed prices) at the level of the same period last year, due primarily to the expected liberalization of prices and purchases made on the basis of deferred payment. It is precisely for these reasons that turnover decreased in June and July, but in view of these economic policy measures, there is no reason for this decrease to stop by the end of the year.

Despite the decrease in the rate of growth of exports (exports in July were only 5.3 percent higher than during July of last year), total exports from the beginning of January to the end of July were greater than according to plan—14.1 percent. Despite the 14.1 percent increase in July, imports were 1.6 percent greater compared to the same period last year. Because of this, the foreign trade deficit is very low—\$133 million, and the share of exports in imports is 98 percent.

Examined according to republic, the economy of Slovenia from 1 January through 31 July had the highest level of exports in absolute terms—\$1.791 billion, and Slovenia accounts for 26 percent of all Yugoslav exports. Its share of exports to convertible-currency areas is even higher, 28.7 percent.

Personal incomes are growing more sluggishly than the cost of living, so that there has been a further reduction in them this year as well. And despite this real decrease in personal incomes, this growth is nevertheless somewhat greater in relation to the restrictive measures. The supply of net personal income paid out in the period from January to May of this year amounted to nearly 10 trillion dinars, 148 percent higher than during the same period last year. However, the supply of net personal income is less in real terms, which means that there has been a decrease not only in average real personal income, but also in the purchasing power of all employees in the social sector. The growth in the supply of net personal income paid out differed according to republic and province—the least was in Montenegro (131 percent), while the most was in Vojvodina (157 percent).

### Supply of Net Personal Income Paid Out, January-May 1988

	(in billions of dinars)		
	1987	1988	Index
Yugoslavia	4,014	9,966	248
Bosnia-Herzegovina	543	1,337	246
Montenegro	72	166	231
Croatia	967	2,463	255
Macedonia	202	481	238
Slovenia	826	2,061	250
Serbia proper	974	2,356	242
Kosovo	89	224	252
Vojvodina	341	878	257

This type of almost homogenous growth in personal incomes in the individual republics and provinces, with a smaller increase in the difference, mainly helped to maintain the existing situation in the level of personal incomes, as shown by the data in the following table.

### Average Net Income Per Employee, January-May 1988

	Amount	Index
Yugoslavia	321,942	100
Bosnia-Herzegovina	270,206	84
Montenegro	233,469	73
Croatia	346,240	108
Macedonia	219,157	68
Slovenia	500,548	155
Serbia proper	288,501	90
Kosovo	223,393	69
Vojvodina	302,868	94

### Real Growth in Public Consumption

The restrictive policy has slowed down investments in development even more. It is possible to say that development has halted completely, and that there are inadequate resources for maintaining the existing capacity.

The rate of gross investment is nearly equivalent to the rate of depreciation. During the period from January to May of this year, total payments for investment in fixed assets, including investments in the housing fund and investments in non-economic activities, amounted to 4.048 trillion dinars, while investments in industry and mining totalled 1.599 trillion dinars. For the sake of

comparison, we are providing data on public consumption: In the period from January to May of this year, budgetary income (incomplete, because National Bank of Yugoslavia income from interest on first-issue loans is not included), SIZ income of social activities and the income of the funds of sociopolitical communities amounted to 14.486 trillion dinars, which is 258 percent more than total payments for investments.

Payments for Investment in Fixed Assets, January-May 1988

(in billions of dinars)

	Total (Economic and Noneconomic)		Industry and Mining	
	Amount	Percent	Amount	Percent
Total	4,048	100	1,599	100
Investor resources				
Transfer account	1,711	42.3	572	35.8
Allocation of resources	1,508	37.3	566	35.4
Resources of collective consumption	192	4.7	49	3.1
Credits				
Dinar credits	281	6.9	136	8.5
Credits from foreign exchange	38	0.9	27	0.4
Current foreign-exchange differences	9	0.2	7	0.4
Investment through banks	209	5.2	242	15.1

The structure of the monetary sources for financing investments indicates that credits have practically been discontinued, which is a normal consequence of high inflation, the policy on interest rates, insolvency and the inability to repay credits.

While the personal consumption of the population is decreasing, especially investments in fixed assets in the economy, public consumption is growing. This is indicated by data on realized budgetary income in the period from January to May of this year:

	(in billions of dinars)	
	Amount	Index
Total	4,725	301
Tax on income from personal income	680	269
Tax from agriculture	680	269
Other taxes	17	206
Excise tax	2,544	296
General taxes	46	294
Duty and special taxes	1,252	350
Income of government bodies	74	231
Other income from the population	31	248
Distribution		
Federal budget	1,972	330
Republican and provincial budgets	1,348	275
Communal budgets	671	246
Funds and other beneficiaries	706	343

Although imports during the first 5 months of this year were no greater than those realized during the same

period last year, income from duty and special taxes was 250 percent greater, due to inflation and the real depreciation in the exchange rate of the dinar, but also because of an increase in charges on imports. The latest increase in import taxes, together with an increase in imports of products on which the highest import and excise taxes are paid, will contribute to an acceleration in the growth of budgetary income. The greatest contribution to real growth in budgetary income is made by the federal budget, where income in the period from January to May of this year income increased by 230 percent. However, this is not the real situation. Around 50 percent of stated income in the budgets of the republics and provinces will be transferred to the federal budget in the form of their official quotes. In addition, transferred resources to other beneficiaries where the budget item designed to stimulate exports is more important are inherently a constituent element of the federal budget. The federal budget also has other income and expenditures that are reported outside the budget. These are the income of the National Bank of Yugoslavia on first issue credits and on scarce financing, while the expenditures involve covering exchange-rate differences, repaying loans, intervention in the economy, etc. If all of this is taken into consideration, the actual federal budget is twice as large as the stated one.

The stated budget too is large. For this year, it would have to amount to 7.010 trillion dinars. This figure does not include intervention in the economy and the covering of exchange-rate differences, and these two items will easily exceed 5.000 trillion dinars.

In real terms, this stated level of general consumption is 17.5 percent higher when compared to that realized in the same period last year. Instead of helping to slow the rise in prices, total public consumption—especially the budgets of the sociopolitical communities—is accelerating inflation, contributing to the real decrease in personal incomes, and completely eliminating the possibility of investments in development.

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**Effort To Revive Smederevo Metallurgical Combine Sketched**  
*28000138 Zagreb START in Serbo-Croatian*  
*9 Jul 88 pp 54-57*

[Interview with Luka Mackic, member of the Executive Council of SR Serbia, chairman of the Committee for Commodity Trade and Services, and chairman of the temporary business board of the Smederevo Metallurgical Combine, by Miodrag Sajatovic: "How I Saved Smederevo"; date and place of interview not given]

[Text] Rescuing an enterprise which is on the verge of business collapse is one of the most strenuous managerial disciplines, but business executives who take up the challenge and restore the firm to the ranks of healthy business organizations are guaranteed fame and appreciation of their entrepreneurial spirit. Lee Iacocca, whom Henry Ford had thrown out of the second-largest American automobile company and who then went over to Chrysler and rescued it from disaster, is the world's best-known rescue manager. And there are some 10 business executives in Yugoslavia known for having restored to health work organizations or complex organizations of associated labor that had stumbled. Herman Rigelnik halted the ruin of Gorenje when he arrived 4 years ago, and today it is again one of the most successful Yugoslav exporters. Rigelnik's results can already be seen quite clearly. Marjan Anzur, from Smelt in Ljubljana, went to the failing IMV in Novo Mesto, and the contract with the French firm Renol to establish a joint enterprise is only the beginning of recovery.

At this moment, however, the most seriously ill patient in the business world is being treated by Luka Mackic, member of the Executive Council of SR Serbia and chairman of the Committee for Commodity Trade and Services. Since last September Mackic has been chairman of the temporary business board of the Smederevo Metallurgical Combine [MKS], an enterprise which for many years has been for Serbia what Obrovac was for Croatia and Feni for Macedonia. The production of iron in Smederevo goes back 75 years, but the "metallurgical giant" 2.5 decades. Billions of dollars have been spent on construction from that time up to last year. Instead of a production operation that would produce profit from which the principal and interest on foreign loans would be repaid (their share in the sources of financing was a suicidal 85 percent!), ever larger losses have been created

in Smederevo. When it seemed 2 years ago that completion of the cold rolling mill would finally create a good foundation for MKS's recovery, a fire destroyed the newly built rolling mill.

After that, the losses, illiquidity, decline of technological discipline, reduction of output, products of ever declining quality, failure to meet delivery deadlines, and personnel turnover have taken on such alarming proportions that MKS has become an everyday topic in the highest bodies of the party and government in SR Serbia. For months the "battle raged" of whether the artificial life support should once and for all be removed from the "patient on the Danube" at the price of heavy losses, or should every available and hypothetically uncommitted billion be squeezed out of the economy of Serbia for a last attempt to rescue the combine, which for many people has been a political factory from the very outset and an utter economic blunder.

In the middle of last year the decision came down in the Assembly of SR Serbia that MKS would be given one more chance. A contribution from income was established to build up resources with which to cover the losses of MKS. The previous director was removed from the combine, and a temporary business team headed by Luka Mackic was brought in. And as in some American film, in just a few months the new management achieved a turnaround. The drop in production was halted, discipline was increased, product quality improved, immense inventories of unsold goods were reduced, and an uncovered loss of only 26 billion dinars was incurred (one-fourth less than was planned).

To be sure, all of this was done with the abundant financial help of those in the republic carrying out the rescue operation, but the new management team never promised that in a few months it would suddenly create a business entity able to survive on its own from the organization which came into being 2.5 decades ago and has been incompetent from the standpoint of business, finance, and investment. Mid-1992 is the deadline set for full recovery, and provision has been made for the "patient" to receive a "transfusion" up until that time that is the equivalent of almost \$1.6 billion.

The interview with the man under whose management production doubled at the MKS in just half a year was agreed to long ago. In spite of the agreement in principle, the actual interview was postponed more than a month, since day after day urgent business, contracts, and trips to trading partners within the country and abroad intervened with the top manager at the MKS. Numerous reports in daily newspapers about the activities of the professional management at the Smederevo Metallurgical Combine provided evidence that it was not a case of avoiding journalists. After coming to the MKS, Luka Mackic had indeed opened the door wide to journalists. Group visits of journalists to Smederevo were even organized from Belgrade to show them the results achieved and to announce new moves. In any case, the

MKS is required to submit a progress report every 6 months to its "patron," the Assembly of SR Serbia. The journalists have been informed even more frequently.

Since he came to the MKS, Mackic has been one of the most quoted Yugoslav business executives, but the folder which became considerably thicker from the time of the initial agreement on the interview until it actually took place did not contain a single interview with the chairman of the temporary professional management board of the MKS. This proved not to be accidental. At the beginning of the interview in the combine's administration building (at the old location, as you leave the city in the direction of Belgrade) Mackic explained that it was agreed among the nine members of the temporary management not to give interviews at first. The judgment now is to undertake in addition to the press conferences individual contacts as well, and the interview in START is the first interview which Mackic himself has given.

Since he was born in 1941, Mackic falls in the middle generation of Yugoslav business executives. There is no confusion. Although he took this position as manager after holding a cabinet post, with his degree in economics, he has nevertheless spent most of his 25-year working life in the economy. After he graduated from the university, he worked for a short time as a staff director in the Committee for the Economy and Finance of the Zemun Opstina Assembly. He soon moved to a commercial enterprise in Belgrade (today known as Centroprom), and 3 years later he went to Tehnogas, where he was the chief executive for 11 years. After that, he moved to the Executive Council of the Assembly of SR Serbia, where he held the position of chairman of the Committee for Commodity Trade and Services. Following the term 1982-1986, he was reappointed to the same position with the status of a member of the Executive Council. In the middle of last year when the resolution was adopted by the Smederevo Opstina Assembly on the initiative of the Assembly of SR Serbia to institute temporary measures at the MKS, it was Mackic who headed the nine-member team that took over the running of the combine which was at its "last gasp."

[START] Although the topic of this interview is related to the metallurgical combine, allow me to put the first question about the enterprise where you have spent most of your working life so far. Tehnogas became well-known because its employees have included Slobodan Milosevic, who today is chairman of the Presidium of the Serbian LC Central Committee, and Ivan Stambolic, until recently the chairman of the State Presidency of SR Serbia, and today the president of JUBMES....

[Mackic] It is a large enterprise. At that time we called it the Consolidated Enterprise Tehnogas. It included numerous producers of industrial gases covering almost 70 percent of the Yugoslav market. All of Macedonia, all of Serbia, all of Bosnia-Herzegovina, a part of the Croatian market, and a portion of Slovenia. So, truly a

Yugoslav enterprise which in its origin and by its character developed as a Yugoslav industrial gas industry. I was fortunate to have worked in such a complicated economic mechanism and with people who learn from one another. We were young. We began at the age of 27 or 28. We had all been members of the youth organization, student activists, which means that we were bound together by our activism and belonging to the same generation.

[START] There was a point at which the two highest positions in SR Serbia were held by people who had come from Tehnogas. At that time, the situation was identical in SR Croatia as well. The chairman of the Presidium of the Croatian LC Central Committee and the chairman of the State Presidency of SR Croatia were from the same collective, the SOUR Rade Koncar. Those are just two examples. Still, is there some internal pattern here, or simply a coincidence?

[Mackic] I think it is a question of the latter. In the interest of successful conduct of business, whether it be in the economy or in sociopolitical communities and organizations, you have to have full mobility of personnel and people have to occupy those important positions who in their ability, the work they have already done, and results achieved can yield the best results under the given conditions. You have mentioned Koncar. That is also a large organization. They also have factories all over Yugoslavia, just like Tehnogas, and they have been doing well. It would be good if we had several such organizations so that personnel could move from them into government agencies or political bodies and back again, out of them into the economy again. Objectively speaking, if you want able people who will leave results behind them, we must have people who have experience both in business jobs and also in jobs in sociopolitical organizations and sociopolitical communities. Only then is an individual rounded out, and only then can he give the maximum and leave results behind. I have been helped both by working in the economy and also by working in the government administration.

[START] Today, there is a certain skepticism about personnel who work for awhile as business executives and then for awhile in the "structures." People want enterprise directors to be professional managers concerned solely with their job in the economy, not people who also engage in politics.

[Mackic] Both the job of business executive and the job of an official must be performed with the highest professionalism, but there is no school that will guarantee that someone will become a specialist in the sense you refer to.

[START] You went back to being a business executive on 1 September of last year. According to my information, you were mentioned as a possible candidate to head the MKS on earlier occasions as well.

[Mackic] At the beginning of last year, Svetislav Radivojevic, who at that time was director and had spent 10 or 11 years in the combine, asked the workers' council to relieve him and then go through the normal process of choosing a director for the enterprise. It is true that at that time I was among the possible candidates. I was interviewed both by the comrades from the MKS and representatives of those bodies concerned with personnel matters. I concluded at the time that positions with a 4-year term could not be accepted. Plans, obligations in the job I held at that time, and I must also say personal concerns, tasks and obligations in my life, brought me to refuse the job that was offered.

[START] Nevertheless, today you do hold this position!

[Mackic] It was later decided not to go through the regular process of choosing a director, but to institute 1-year temporary measures. There were nine of us who took the job on, and now you see we have less than one-fourth of our term left.

[START] Can one conclude that it is easier to be a temporary professional manager in the context of "suspended self-management" than to be a director with the customary powers?

[Mackic] I must correct you. Self-management has not been suspended at the MKS. It is true that temporary measures have been instituted, but the bodies of self-management have not been dissolved.

[START] Incidentally, I have read that Radivojevic, after his failure as MKS director, went off to some business representative office abroad as "punishment."

[Mackic] That is not so. Radivojevic is today working in Business Community Jugobakar. That is the field he worked in before coming to the MKS. He was a successful mining engineer. So he has gone back to his "first love."

[START] Should professional managers be punished when they are not successful in a job?

[Mackic] Everyone should be assigned to a job he can perform effectively. In this particular case the maximum effort was made within the possibilities, and if the results did not come about, that was largely because it was difficult to do anything in the context of the illiquidity which the MKS had fallen into.

[START] What drove you to accept this thankless job, even temporarily? The fact that the republic decided to provide credit to finance the rescue of MKS until 1992?

[Mackic] The decisive thing was to learn what catastrophic consequences not only for the MKS, but indeed for the republic, could occur if the negative trends from the 1st half of 1987 should continue in the combine.

[START] What about your position as member of the Executive Council of SR Serbia?

[Mackic] I have remained a member of the Executive Council, as have three of my colleagues. We have simply stepped aside temporarily from day-to-day business in the Council and began to do this job.

[START] It is not very often that a government gives up several cabinet members and sends them to rescue a business organization. This supports the slogan: "Serbia cannot survive with the MKS, but without it it is still more difficult."

[Mackic] It is true that the combine has been in trouble and still is even now. Because of obligations created over the many years of construction, which would remain even if the MKS were shut down or further investment were halted, that is, without the MKS, it would be still more difficult. The only solution is to have a sound and healthy MKS, and we would have not taken this job on if we were not deeply convinced that that is what it will become.

[START] What did you find when you went to supervise the rescue of the MKS?

[Mackic] Production was dropping off more and more, utilization of capacity was dropping, the financing of current business operation was getting worse and worse, capital construction had died, deteriorating position on the market, unsold inventories, and personnel turnover.... Because of the low personal incomes, trained personnel had begun to leave the combine.

[START] I read somewhere the rather malicious observation that the first move you made when you arrived at the MKS was to order that your office be done over.

[Mackic] That, of course, is not true. We had more intelligent and urgent things to do. The office is just the way I found it when I came....

[START] In just 9 months of the temporary measures all the negative trends have been halted. You often say that the MKS has increased production 52 percent over last year. That is a large increase, but the base from last year is also very low.

[Mackic] Yes, the base was low, but that 52-percent increase brought the collective to the level of producing what the equipment in place needs to operate optimally. We are already in the upper zone of utilization of the capacity now installed.

[START] Tell us the secret recipe for stopping the negative trends and immediately starting favorable trends in such a short time, even with financial support from those carrying out the rescue.



[Mackic] There is no recipe, nor wisdom. Just as in any other job. What do you need to write a good story or column? To know how to do it, to have the information, and to be willing to work hard at it. That has been the case here. It is just that the job required a higher level of commitment. What is hardest for me personally is that I must spend between 14 and 16 hours a day on the job, to get up at 0500 hours, to go from Belgrade to Smederevo, and to get back home at about 2000 hours.

[START] Those who have long been familiar with the situation in the MKS say that there has been a great change in the mood of those employed in the combine. People are behaving differently, they are doing their jobs.

[Mackic] When we came and looked at the personnel situation, equipment, technology, the bad situation on the market, we simply turned to the work force and forced them to face the facts along with us. We presented the condition of the MKS just the way it was. We said: only on the basis of larger output, larger sales, more efficient use of equipment, that is, with better and more work, is it possible to achieve the goals that have been set. But at the same time we said that if it goes on in the same old way, the combine will have to shut down. Production will come to a halt, there will be a large loss, and the first to suffer will be those employed at the MKS, since they will be left without a job. The combine's obligations will have to be paid, and the problems will be passed on to the bank and the sociopolitical community. Finally, unless the combine produces the million tons of steel planned for this year, those quantities will have to be imported....

[START] You include in those "imports" steel coming from other parts of Yugoslavia as well. It is well-known that the other steel mills in the country have been having problems in marketing their products. If the MKS ceased production, that would offer them an opportunity for larger sales in the country and better utilization of capacity....

[Mackic] I am not referring to "imports" from other parts of the country. I am talking about the Yugoslav balance of the need for products of ferrous metallurgy, since domestic steel mills cannot meet in either assortment or quantity the increasingly numerous needs of the metal-manufacturing industry, shipbuilding, and the like. It is true that steel is being exported, but that steel for which the capacity is larger than domestic demand. There is not enough high-quality steel and that steel which Smederevo makes. So, it has to be imported.

[START] Why make such a bugbear of importing steel? It is well-known that world steel-making capacity is much larger than the demand, which means that steel can be bought at good prices. If those imports were also

paid for on a barter basis, that is, with exports of products of other Yugoslav producers, that perhaps might be a better alternative than further financial rescue of the MKS?

[Mackic] It is not that simple. But one should not reproach people who are thinking along those lines. The argument that world steel consumption is dropping happens to be accurate. But it is also true that steel will be the basic production supply in the world for many years to come. So, the drop in the quantity does not signify a declining importance of steel. It is even becoming more important. Changes are taking place in the types of steel which are being consumed. There is smaller consumption of volume steels, but not of high-quality alloy steels. Ferrous metallurgy in the West has already been restructured: we have yet to do this, since we still have a demand for the volume types of steel. Is it better to import the rest? Even imported steel has to be paid for. The value of output at the MKS this year, for example, will be \$450 million. If that were to be imported, where would so many dollars come from? Nor is it possible to speak in literal terms about exchanging steel for other goods. One must have goods to be used in importing steel.

[START] But if the funds which are now going for financial rescue of the MKS were invested in something for which economic conditions are good at the moment, the propulsive branches, the effects might cover the obligations of the MKS and even bring some earnings besides?

[Mackic] Yes, provided that those branches have the material base so that they can guarantee production. These are big bills. Over the next 1.5 to 2 years, when we finish the investment projects which are under way, we plan to achieve an output of 1.5 million tons of steel. That is about \$1 billion at world prices. And we all know what world export prices are. One must realize that steel is not a commodity which is the subject of international trade. The large producers sell only what is left from their production or those types of steel on which the earnings are good....

[START] Recently, the MKS has been exporting quite a bit. Remarks have been made that you are selling steel for a song.

[Mackic] In recent months, the world steel market has been good. Not for those volume steels (which we have talked about), but the high-quality steels. They are produced in the Slovenian steel mills, Niksic, Skopje, and Smederevo. Last year, that is, before market conditions began to improve, we sold a ton of hot-rolled steel for \$250-260. Now the price has climbed as high as \$400. It is well-known that steel is a heavy industrial product and that as such it is sold in international trade at considerably lower prices than so-called domicile prices. It is not right, then, to compare, say, the price of steel at which a country imports it to the price in effect for its producers.

In the Federal Republic of Germany that difference is 35 to 45 percent. Our steels are among the very rare cases where the export price is almost equal to domestic prices, but that is another story that has to do with the price policy conducted in Yugoslavia.

[START] I suggest we go back to the reaction of the workers when you presented the actual situation to them after your arrival at the MKS.

[Mackic] Our main objective was that those 11,000 members of the labor force realize that their destiny was mainly in their own hands. It was not easy to change long-standing habits and attitudes toward the problems. The combine's labor force had lived in an abnormal situation for a long time. Over most of that time the MKS has not been a manufacturing organization that could live exclusively from its production and its results on the market.

[START] On one occasion you referred to that as the mentality of the big investor.

[Mackic] Yes. Everyone was getting along fine because of the investments made over many years in the MKS. The work force itself above all. The important thing was not the effort that was made, but the inflow of resources for investment. And then the contractors did well, the supervisory bodies, the banks, and numerous others, and even the government, which was collecting everything collected from the investors, beginning with customs duties. And now money is flowing in from the financial rescue operation, but only on the condition of output, that the needs of customers are met.

[START] Judging by the figures on optimalization of inventories, you have managed to find customers?

[Mackic] We have been trying to nurture responsibility to the customer as a kind of religion. We do not need weak customers to whom we will deliver a certain quantity, but strong organizations, large consumers. You cannot bring them back and hold them with the quality of your products, by adapting your product mix, and by respecting the deadlines agreed to.

[START] Even under the present conditions of the illiquidity of the Yugoslav economy you have managed to collect 99 percent on sales?

[Mackic] There are several circumstances involved here, but we concentrated hard on collecting receivables. Our people responsible for collecting on what was sold did not sit in their offices. They went out to every customer. Aside from that, one must not overlook the obvious willingness of our trading partners to help in the combine's financial rescue.

[START] What is the geographic distribution of your customers?

[Mackic] We expect to export about 30 percent of the 1 million tons planned for 1988. Of the 700,000 tons for the domestic market, 450,000 tons will be sold to customers within SR Serbia and about 250,000 tons in the other republics.

[START] I asked you about the distribution of customers, since one might conclude that those from your republic are in a way—putting it crudely—driven to rescue in that way.

[Mackic] The real answer lies in the really good conditions on the Yugoslav market. This is not just for products from Smederevo. Six months ago there was high demand except for the volume steels. We began with increased sales at a favorable moment, but with a better mix and quality. What is more, metal manufacturers have reduced steel inventories, and imported steel after all is more expensive. Customers who had to abandon us because of the fire 2 years ago are now coming back because repairs have been completed on the rolling mill for cold-rolled steel products.

[START] Yet allow us to maintain a certain reserve toward the results achieved so far and their significance as to the future. It is obvious that the first phase, that is, pulling up out of the abyss, has been successfully achieved. But the MKS could once again go into the abyss the day after it ceases to receive aid from the financial rescue program. The year 1993, when total recovery is envisaged, is still far off. Is it not true that the mistakes in the past, from the very site in an area which has quality grapes in abundance, but no iron, are nevertheless of such a nature that all of this is a futile business?

[Mackic] Along with efforts to halt the negative trends in production and other aspects, we worked out a program for long-range consolidation of the combine's development. Financial rescue programs cannot be drawn up unless current production is maintained. And the reverse also holds true. That was our point of departure.

[START] Still, isn't the location at fault?

[Mackic] The fact is that there is an entire family of European steel mills in the countries through which the Danube flows, and that they have been built alongside this large waterway. They all went under construction a long time ago, some of them are even older than Smederevo, for the simple reason that the transportation factor is very significant in this type of production. We are talking about large shipments. Things have to be brought, taken away, and exported.... And water transportation was then and still is the cheapest. Steel mills are primarily built along watercourses. The best site is not necessarily right at the mine head. So, the location of the Smederevo steel mill has quite a few advantages. The bigger problem is that these plants were not completed on schedule. As for the degree of completion of the investment projects, we have calculated that 90 percent of the necessary resources have already been invested



and that investment of the remaining 10 percent over 2 years guarantees 1.65 million tons of iron and steel, 150,000 tons of hot-rolled steel products, and 800,000 tons of cold-rolled steel products. That is double the present output. That fact, 10 percent of the investment capital for double production, was one of the main reasons why we rejected the possibility of shutting down the MKS completely and also of carrying on production in the parts of the mill already built.

[START] You recently declared that the sociopolitical community, the banks, and the Economic Chamber have shown a great deal of understanding. Isn't that behavior a bit strange at a time when everyone needs every dinar?

[Mackic] The first group of those rescuing the MKS is made up of those who, as we put it, come before and after the combine. That is, suppliers of other raw materials and production supplies and purchasers of the products. The second source of funds for the financial rescue is the bank, in this case Investbanka, through which the combine carries on all its transactions. And the third source is the government, in this case SR Serbia, since the obligations are far greater than the strength of Smederevo Opstina....

[START] You are a government enterprise, then, in the true sense of the word?

[Mackic] The manner in which SR Serbia is participating in the financial rescue of the MKS, and what that means is that all business organizations set aside 1.26 percent of their income for the MKS, which is less than 0.5 percent of the social product, is nothing particularly new or original. Much the same is done throughout the world. There are not very many iron and steel industries, or perhaps we might better speak about national steel industries, which have not had to undergo financial reorganization. Most have operated at a loss, if for no other reason than because low prices are set on steel as an input element of many industries. Governments conducting such a policy compensate producers for that price of steel. They give them various exemptions, subsidies, long-term credits at lower rates. The resources of the republic are taking part in covering the losses and obligations which the combine is unable to cover from its own sources and the other sources of financing for the rescue. As a matter of fact, the republic figures as the largest participant in the financial consolidation of the combine.

[START] At the present prices and sales volume, are you at least covering what we call simple reproduction, that is, costs except for obligations arising out of the investments and credits?

[Mackic] When the obligations are omitted, especially the capital investments financed with credit, the value of current output, with all the costs involved, is covered from revenues.

[START] Certain business organizations in Serbia have reproached Investbanka for being more concerned with losing operations like the MKS or Zorka from Sabac and less concerned about serving sound enterprises.

[Mackic] Perhaps. I am not aware of that. I know that large resources are going into the financial rescue of Smederevo, but I have already said that if we should give up on it, the obligations in the republic would be still greater. It is another matter that the financial rescue of such a heavy industry should probably be carried out by the organizations vertically related to it, rather than on the basis of the political administrative division in which the organization being reorganized is located. Unfortunately, the conditions did not allow that.

[START] Where from here?

[Mackic] If everyone does his part of the job, the MKS what it must do, and obligations are fulfilled by those carrying out the financial rescue, the other members of the temporary professional management board and I are deeply convinced that the combine will enter the year 1993 able to conduct its business without help from outside. One of the tasks which we have set ourselves, and it is not noted down in the program, is to go a step faster than the tasks which have been set officially. Which means that if an output of 700,000 tons of steel is scheduled for 1988, we adopted a plan with an output 10 percent higher. We are now creating the conditions to exceed even that higher production plan. We have a higher sales target in the plan for this year than was originally set.

[START] Why such a hurry?

[Mackic] For our sakes, but also because of those supplying funds for the rescue. We are creating an atmosphere in which every dinar we obtain from them must be given a higher value than if it were our own. We take every occasion to point out to people that these resources must be differently treated than has been the case in the past.

[START] That is probably a good motive, but there is no doubt that aside from the hope that things will be better, decent earnings of the labor force can serve as the best motivation. Salaries have been raised considerably since your arrival and the initial conduct of the program for financial rescue. Won't the current provisions of the law on wages and salaries again set you back and initiate a departure of specialists?

[Mackic] When we came, personal incomes were about 11 million old dinars. Today, they average somewhere around 30 million. As for limitations on personal incomes, in the program for financial rescue we made provision for the possibility that those supplying us resources for this purpose will also cover a portion for personal incomes in the combine, but only provided the

combine discharges its obligations. We are now exercising that right. The law, as is well-known, has opened up the possibility that if organizations carrying out a financial rescue furnish nonrepayable resources to an organization of associated labor earmarked for personal incomes, those resources can in fact be used.

[START] It is obvious that today the MKS has a surplus of manpower. You have not undertaken layoffs. Is it not wrong, then, to use the funds for financial reorganization to cover an excessively large labor force?

[Mackic] Our initial premise is that a job analysis must be done based on the needs of the production process. The purpose is to achieve larger output with fewer employees. We plan to reduce the size of the labor force from 11,000 to about 8,200 before 1993. Assuming achievement of the larger output, that would bring us up to the normal productivity of steel mills elsewhere in the world. We envisage for 1988 a reduction of between 500 and 600 workers.

[START] How do you intend to carry it out?

[Mackic] We will attempt to work things out in the combine itself, but not with the existing jobs, but by organizing new ones which up to now have been done for the combine by organizations outside the MKS. The rest we will try to work out through retraining, and some of the workers will retire. We are also thinking about the purchasing of remaining pensionable service.

[START] How do you look on the first drafts of the upcoming economic reform?

[Mackic] It is the only possible way. There is no other, since that would mean working as we have done up to now, and that means allowing other projects to be under construction for 24 years, as was the case with this metallurgical combine. The concept of the economic reform offers a normal market economy. We must expect that the set of appropriate instruments will also be furnished and that business organizations will be compelled to behave economically and optimally.

[START] Less than 3 months remain to the end of the temporary administration in the metallurgical combine. They are working in the Executive Council of Serbia with a reduced number of members, but your place is probably not in jeopardy.... Nevertheless, now that you have gotten such a good start on the job in the MKS, do you think about remaining at the head of the collective for a longer period?

[Mackic] I would not get into that. Our task is to complete this job as we agreed. One of the jobs is to prepare the selection of a new management team. In our judgment, the organization chart should not remain what it was with a general director and his assistants. We are proposing a professional management board which also would have nine members.

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